



AROUND THE GLOBE, AROUND THE CLOCK.

Department of the Navy Office of Financial Operations (FMO)

FISCAL YEAR 2015 NAVY SCHEDULE OF BUDGETARY ACTIVITY



A background image showing several Navy SEALs in full combat gear, including helmets and large green and tan backpacks, walking away from the camera on the deck of a ship. In the background, the tail section of a large aircraft, possibly an F-35, is visible. The scene is brightly lit, suggesting a sunny day. Overlaid on the image are three thick, curved, light gray lines that sweep across the upper half of the frame.

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1.0 ASSISTANT SECRETARY OF THE NAVY, FINANCIAL MANAGEMENT & COMPTROLLER



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As a result of the tremendous efforts of our dedicated Navy personnel and service provider partners, I am proud to present the first Annual Financial Report for the United States Navy's Schedule of Budgetary Activity (SBA). The ability of the Navy to generate this financial report and engage with an independent firm to audit the 2015 SBA marks an important milestone in the path to full financial statement auditability. We must demonstrate to Congress and the American taxpayers that we are accountable for every dollar spent in accomplishment of the Navy mission: "To maintain, train, and equip combat-ready Naval forces capable of winning wars, deterring aggression, and maintaining freedom of the seas."¹ One important metric for demonstrating this fiscal accountability is to bring the Department into compliance with financial statement audit standards. To comply with these accountability standards, the Navy is executing a focused, concrete plan that includes this first year SBA.

Many accomplishments achieved for the first time this year allowed Navy to prepare the SBA and related notes. Among the most noteworthy was the Office of the Assistant Secretary of the Navy, Financial Management and Comptroller, Office of Financial Operations (OASN, FM&C - FMO) implementation of an automated capability to reconcile a universe of transactions for the Navy's General Fund fiscal year 2015 appropriations. As a result, FMO was able, for the first time in the history of the Navy, to deliver the SBA, supported by Navy transactions and separating Navy and Marine Corps accounting data. The resulting transaction population allowed Navy to engage with the independent auditor in conducting sample testing. Equally as noteworthy was the ability of Navy Budget Submitting Offices and service provider organizations to actively and effectively respond to the auditors' requests, setting a high standard in this first year, a significant accomplishment in the initial exposure to an audit of this scope. The new capabilities and accomplishments demonstrated by Navy have facilitated access, analysis, and review of financial transaction data in new ways, laying the foundation for future financial statement audits.

The department recognizes there is more work to be done to mitigate the many challenges associated with the journey to auditability. We are actively implementing appropriate remediation actions to address identified weaknesses, mindful that this progress is bringing us closer to the goal of financial improvement and auditability.

A handwritten signature in black ink, appearing to read "S.J. Rabern".

S.J. Rabern

¹ "Mission of the Navy". Department of the Navy.



2.0 MANAGEMENT'S DISCUSSION AND ANALYSIS



Conducting morning colors aboard an aircraft carrier providing a combat-ready force that protects and defends the collective maritime interests of its allies and partners in the Indo-Asia-Pacific region. (U.S. Navy photo by Mass Communication Specialist 3rd Class Nathan Burke/Released)

2.1 OVERVIEW

The Department of Defense (DoD) includes three military departments (Department of the Army, Department of the Navy, and Department of the Air Force); however, there are four separate service branches (Army, Navy, Marine Corps, and Air Force). Since 1834, the Navy and Marine Corps have been housed together under the Department of the Navy (DON).

The Department of the Navy was established on April 30, 1798. The DON has three principal components: the Navy Department, consisting of executive offices mostly in Washington, DC; the operating forces, including the Marine Corps, the reserve components, and, in time of war, the U.S. Coast Guard (in peace, a component of the Department of Homeland Security); and the shore establishment. The Department of the Navy consists of two uniformed Services: the United States Navy and the United States Marine Corps.


The United States Navy was founded on October 13, 1775. The Navy's core responsibilities are to deter aggression and, if deterrence fails, win our Nation's wars. The Navy employs the global reach and persistent presence of forward-stationed and rotational forces to secure the Nation from direct attack, assure Joint operational access, and retain global freedom of action. Along with global partners, the Navy protects the maritime freedom that is the basis for global prosperity and fosters and sustains cooperative relationships with an expanding set of allies and international partners to enhance global security.

The DON continues to operate forward across the globe, providing the nation offshore options to deter and defeat aggression today and in the future. In fiscal year (FY) 2015, the Navy organized and participated in the International Mine Countermeasures Exercise (IMCMEX), the world's largest naval exercise, with 44 participating nations from six continents. IMCMEX is an opportunity for more than 6,500 personnel from navies around the world to hone the intricate defensive techniques necessary to search for and dispose of mines, which represent a threat to all nations worldwide. While the IMCMEX focuses on mine countermeasures, it has been broadened to include opportunities for ships' crews from around the world to conduct maritime security operations such as escorting and defending commercial shipping, as well as carrying out the drills required to protect maritime infrastructure, such as harbors and oil rigs. This exercise demonstrated that the international community is capable and ready to work together in the spirit of cooperation and partnership.

Also during FY 2015, the DON participated in the 21st annual Cooperation Afloat Readiness and Training (CARAT). CARAT is the premier naval engagement in South and Southeast Asia. The bilateral and multilateral exercises provide a regional venue to develop strong maritime partnerships that contribute to the greater peace and stability of the region. Each CARAT exercise features several days of shore-based exchanges, professional symposia, and tactical scenarios culminating in combined training at sea. The exercises are a practical way to address shared maritime security priorities, enhance capabilities, and improve interoperability between forces. The highlight of this year's CARAT Singapore exercise was the inaugural use of unmanned aircraft systems. The U.S. Navy and Republic of Singapore Navy (RSN) operated in a joint environment, demonstrating the value of unmanned platforms in providing an enhanced maritime domain awareness picture. This year's CARAT Philippines also marked the first time a Littoral combat ship has participated in a CARAT exercise. These exercises and partnerships are essential to the National Defense strategy and the DON's efforts to strengthen alliances and partnerships in the Asia-Pacific region to advance a common security vision for the future.

The DON will face additional challenges in meeting its mission as the world is defined by speed and information sharing. The pace with which technology is developed, employed, and then changed drives everything in the world today. Information is shared everywhere in seconds, and technology is no longer available just to the few governments and nations, but to everyone. Adversaries can be nations, or not, and can appear at the speed of connectivity. They can adapt and employ technology as fast as the commercial world develops it and can be unburdened by policies and processes. The array of cyber-attacks and the variety of both attackers and targets is a prime example of the challenges the Department faces going forward. In order to combat these challenges, the DON established the Navy Task Force Innovation Vision. This task force comprises thinkers, experts, and warfighters with diverse backgrounds and from every level. This task force is charged with harnessing the creative energy of Sailors and Marines and infusing the ideas that come forward into DON operations. The primary focus will be to establish an innovation network for the DON, reform how the DON manages its workforce and talent, use massive amounts of data collected by the DON in a better way, get emerging operational capabilities to the fleet faster, and create breakthrough warfighting concepts.

One example of innovative technology is the introduction of interactive software that can dramatically cut the time it takes to plan safe submarine missions. This software was crossed over to the surface fleet and installed on the guided-missile cruiser USS Mobile Bay in December 2014. This technology adds speed



Sailors aboard an attack submarine heave in a mooring line. (U.S. Navy photo by Mass Communication Specialist Seaman Apprentice Michael Doan/Released)



The Navy's unmanned X-47B receives fuel from an Omega K-707 tanker while operating in the Atlantic Test Ranges over the Chesapeake Bay. This test marked the first time an unmanned aircraft refueled in flight. (U.S. Navy photo/Released)

and precision to the process of finding the best routes around hazardous waterways throughout the world. Through partial automation and use of apps and widgets, this new technology can review thousands of chart markings in a fraction of the time it took manually, pinpointing potential hazards and creating optimal routes around rocks, reefs, and other shallow spots. The installation on Mobile Bay will help researchers refine the mission planning technology for the surface ship community.

During FY 2015, the Navy conducted the first ever Autonomous Aerial Refueling of an unmanned aircraft. While flying off the coast of Maryland and Virginia, the X-47B connected to an Omega K-707 tanker aircraft and received over 4,000 pounds of fuel using the Navy's probe-and-drogue method. This testing helps solidify the concept that future unmanned aircraft can perform standard missions like aerial refueling and operate seamlessly with manned aircraft as part of the Carrier Air Wing.

The Navy launched its fourth Mobile User Objective System (MUOS) satellite in September 2015. MUOS is an architecture comprised of a five-satellite constellation, with the fifth satellite to be launched in FY 2016. This array allows mobile forces, including submarines, surface ships and aircraft, to communicate around the world via the narrowband spectrum. MUOS works like a smartphone network in space, vastly improving secure satellite communications for mobile U.S. forces. MUOS is already providing legacy communications to combatant commanders via active satellites on-orbit. MUOS' new Wideband Code Division Multiple Access capability has been demonstrated in various environments, platforms, and applications such as integration testing with the newest submarine antennas, Navy special operations scenario exercises, and Air Force C-17 in-flight tests. MUOS will be used by all services. For example, the Army will extend satellite communication to their individual soldiers and special operations forces will use MUOS for all their missions. The Navy uses MUOS in particular for submarine communications.

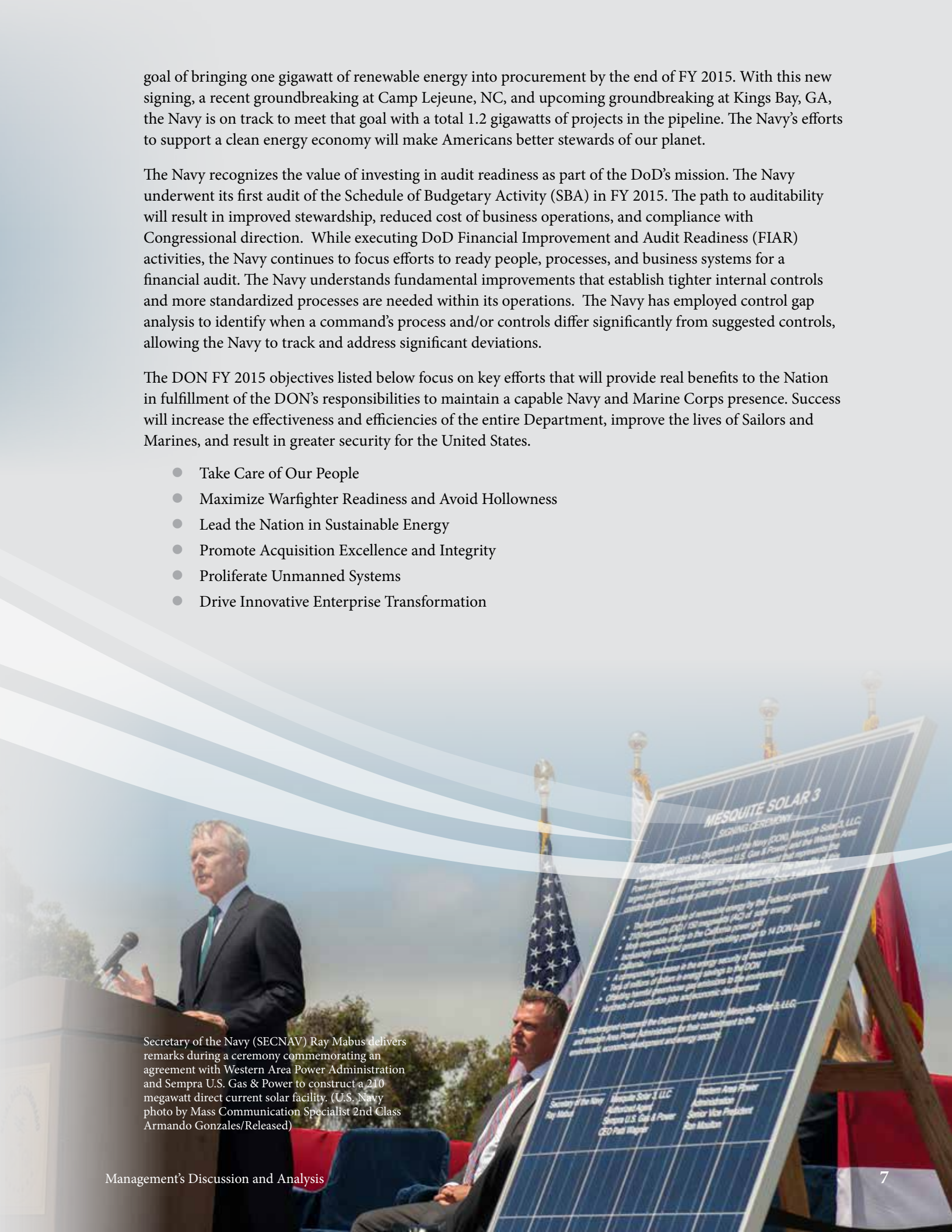
The DON continued to make significant progress toward reaching the Secretary's energy goals. During FY 2015, the DON entered into an agreement with Sempra U.S. Gas & Power and Western Power Administration to construct a 210 megawatt direct current solar facility to benefit 8 Navy installations. This agreement is the largest purchase of renewable energy ever made by a federal entity. Adding solar power to naval installations will help diversify the DON's shore energy portfolio and provide long-term cost stability, which ultimately contributes to the DON's energy security priorities. In addition to the energy security benefits to the DON, this project will help the 8 Navy installations comply with California's Renewable Portfolio Standard. The solar facility will contribute 21 percent of the power needed to meet the SECNAV's

goal of bringing one gigawatt of renewable energy into procurement by the end of FY 2015. With this new signing, a recent groundbreaking at Camp Lejeune, NC, and upcoming groundbreaking at Kings Bay, GA, the Navy is on track to meet that goal with a total 1.2 gigawatts of projects in the pipeline. The Navy's efforts to support a clean energy economy will make Americans better stewards of our planet.

The Navy recognizes the value of investing in audit readiness as part of the DoD's mission. The Navy underwent its first audit of the Schedule of Budgetary Activity (SBA) in FY 2015. The path to auditability will result in improved stewardship, reduced cost of business operations, and compliance with Congressional direction. While executing DoD Financial Improvement and Audit Readiness (FIAR) activities, the Navy continues to focus efforts to ready people, processes, and business systems for a financial audit. The Navy understands fundamental improvements that establish tighter internal controls and more standardized processes are needed within its operations. The Navy has employed control gap analysis to identify when a command's process and/or controls differ significantly from suggested controls, allowing the Navy to track and address significant deviations.

The DON FY 2015 objectives listed below focus on key efforts that will provide real benefits to the Nation in fulfillment of the DON's responsibilities to maintain a capable Navy and Marine Corps presence. Success will increase the effectiveness and efficiencies of the entire Department, improve the lives of Sailors and Marines, and result in greater security for the United States.

- Take Care of Our People
- Maximize Warfighter Readiness and Avoid Hollowness
- Lead the Nation in Sustainable Energy
- Promote Acquisition Excellence and Integrity
- Proliferate Unmanned Systems
- Drive Innovative Enterprise Transformation



Secretary of the Navy (SECNAV) Ray Mabus delivers remarks during a ceremony commemorating an agreement with Western Area Power Administration and Sempra U.S. Gas & Power to construct a 210 megawatt direct current solar facility. (U.S. Navy photo by Mass Communication Specialist 2nd Class Armando Gonzales/Released)



An amphibious assault ship and amphibious transport dock ship conduct a simulated strait transit. (U.S. Navy photo by Mass Communication Specialist 3rd Class Huey D. Younger Jr./Released)

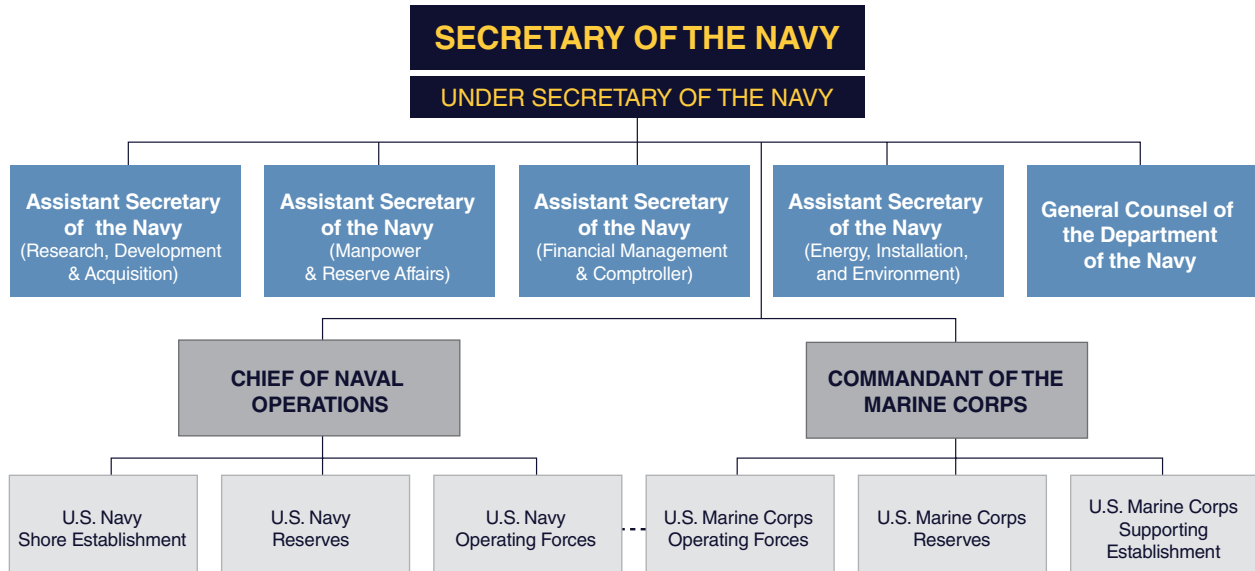
**TO MAINTAIN, TRAIN, AND EQUIP
COMBAT-READY NAVAL FORCES
CAPABLE OF WINNING WARS, DETERRING
AGGRESSION, AND MAINTAINING
FREEDOM OF THE SEAS.**

Department of the Navy Mission



Founded 30 April 1798

Title 10 U.S. Code, Section 5061



*Dashed line signifies collaboration of the U.S. Navy and the U.S. Marine Corps operating forces.

2.2 MISSION AND ORGANIZATION STRUCTURE

The United States Navy was founded on October 13, 1775. The mission of the Navy is to maintain, train, and equip combat-ready naval forces capable of winning wars, deterring aggression and maintaining freedom of the seas. It is overseen by the Chief of Naval Operations (CNO), and consists of the operating forces and shore establishment. The CNO is the senior military officer in the Navy, a member of the Joint Chiefs of Staff, and is the principal naval advisor to the President and to the Secretary of the Navy (SECNAV) on the conduct of war. He is also the principal advisor and naval executive to the Secretary on the conduct of naval activities of the DON. The CNO's office is responsible for the command, utilization of resources and operating efficiency of the operating forces of the Navy and of the Navy shore activities assigned by the Secretary. The Navy operating forces commanders and fleet commanders have a dual chain of command. Administratively, they report to the Chief of Naval Operations and provide, train, and equip naval forces. Operationally, they provide naval forces and report to the appropriate Unified Combatant Commanders. The Commander of the Fleet Forces

Command controls fleet assets on both the Atlantic and Pacific coasts for interdeployment training cycle purposes. As units of the Navy enter the area of responsibility for a particular navy area commander, they are operationally assigned to the appropriate numbered fleet. All Navy units also have an administrative chain of command with the various ships reporting to the appropriate type commander. The shore establishment provides support to the operating forces (known as "the fleet") in the form of: facilities for the repair of machinery and electronics; communications centers; training areas and simulators; ship and aircraft repair; intelligence and meteorological support; storage areas for repair parts, fuel, and munitions; medical and dental facilities; and air bases.

The Navy is comprised of a number of organizations that have been developed to provide the DON with specific capabilities. These organizations carry out their assigned missions and functions through the efforts of a dedicated force of active and reserve sailors and civilian support personnel.

Bureau of Medicine and Surgery



The Navy Bureau of Medicine and Surgery (BUMED) provides high quality health care to beneficiaries in wartime and in peacetime, under the leadership of the Navy Surgeon General. Highly trained Navy Medicine personnel deploy with Sailors and Marines worldwide - providing critical mission support aboard ship, in the air, under the sea and on the battlefield. The Navy Medicine team of physicians, nurses, corpsmen, dentists and mental health providers work in tandem with the Army and Air Force medical personnel and coalition forces to ensure the physical and mental wellbeing of troops and civilians. Navy Medicine's military and civilian health care professionals also provide care for uniformed services' family members and retirees at military treatment facilities around the globe. BUMED has 63,000 active duty personnel and reservists, government civilians and contractors of Navy Medicine engaged in all aspects of expeditionary medical operations in support of the warfighter. BUMED is headquartered in Falls Church, VA.

Bureau of Naval Personnel



The Bureau of Naval Personnel (BUPERS) provides administrative leadership, policy planning, general oversight, training and education for all Navy personnel. BUPERS strives to support the needs of the DON by providing the fleet with the right person with the right skill set in the right place at the right time, using the most efficient human resource processes possible. BUPERS also provides support services to Sailors and is dedicated to ensuring Sailor readiness and quality of life through its myriad of professional and personal/family focused programs. BUPERS has six subordinate commands: Naval Education Training Command (NETC); Navy Recruiting Command (NRC); Navy Personnel Command (NPC); United States Naval Academy (USNA); Naval Postgraduate School (NPS); and Naval War College (NWC). BUPERS and its subordinate commands have a total of 9,443 authorized full time equivalent (FTE) civilian employees. BUPERS is headquartered in Arlington, VA.

Commander Navy Installations Command



Commander, Navy Installations Command (CNIC) is responsible for Navy-wide shore installation management. CNIC enables and sustains naval forces from the shore by

designing, developing, and delivering integrated shore capabilities to our fleet, the fighter, and the family. The programs and services launch every shore-based ship, submarine, and aircraft and take care of every Sailor and their families. CNIC has 52,000 employees in 11 regions, 70 Installations, and 123 Naval Operations Support Centers. CNIC has overall shore installation management responsibility and authority as the Budget Submitting Office for installation support. CNIC is headquartered in Washington, DC.

Commander, Navy Reserve Force



Commander, Navy Reserve Force (CNRF), also known as the Commander U.S. Navy Reserve Force, delivers strategic depth and operational capability to the Navy, Marine Corps, and Joint Forces by providing mission-capable units and individuals in support of the full range of operations, from peace to war. The 59,100 personnel of the Navy Reserve represent approximately 10% of the Navy Total Force. The Navy Reserve provides essential warfighting capabilities and expertise, is strategically aligned with mission requirements, and valued for readiness, innovation, and agility. The military component of the Navy Reserve represents only 6% of the Navy's total military personnel budget but is a significant force multiplier for Active Component. CNRF is headquartered in Norfolk, VA.

Department of Navy Assistant for Administration



The Department of the Navy Assistant for Administration (DON/AA) provides administrative management and support to the Office of the Secretary of the Navy (SECNAV), its approximate 4,600 member Secretariat, staff offices, field activities and supported organizations. The command is comprised of administrative divisions focused on customer service, directives and records management, contract management, executive dining, facilities and support services, financial management, human resources, information technology, and security. The DON/AA has 127 personnel and is headquartered at the Pentagon in Arlington, VA.

Field Support Activity



Field Support Activity (FSA) establishes, maintains and provides a system of financial services as the Budget Submitting Office (BSO) and Principal Administering Office (PAO)

for Navy's assigned unified command (PACOM), Navy Headquarters and activities, the National Defense Sealift Fund, and Department of the Navy Centrally-Managed Bills. FSA initiates action in matters pertaining to the provision of funds and manpower; evaluates resource utilization; and initiates or recommends appropriate corrective actions. Additionally, FSA plans and programs for current and future resource requirements for activities within the Director, Navy Staff (DNS) sponsorship and also provides contract support for DNS/CNO activities. FSA has 39 personnel and is headquartered at the Washington Navy Yard in Washington, DC.

Military Sealift Command



The Military Sealift Command (MSC) operates approximately 110 noncombatant, civilian-crewed ships that replenish Navy ships at sea, conduct specialized missions, strategically preposition combat cargo at sea around the world, perform a variety of support services, and move military equipment and supplies to deployed U.S. forces and coalition partners. MSC operates five subordinate commands worldwide that are aligned with the numbered fleet logistics staffs in the Atlantic, Pacific, Europe/Africa, Central and Far East areas. MSC is headquartered in Washington, DC and Norfolk, VA, with approximately 9,500 Department of the Navy civilian employees supporting its mission worldwide.

Naval Air Systems Command



The Naval Air Systems Command (NAVAIR) has a force of 26,000 personnel focused on research, design, development, and systems engineering; acquisition management; test and evaluation; training facilities and equipment; repair and modification; an in-service engineering and logistics support of naval aviation aircraft and weapon systems operated by Sailors and Marines. NAVAIR is organized into eight "competencies" or communities of practice including Program Management, Contracts, Research and Engineering, Test and Evaluation, Logistics and Industrial Operations, Corporate Operations, Comptroller, and Counsel. NAVAIR provides support (people, processes, tools, training, mission facilities, and core technologies) to Naval Aviation Program Executive Officers and their assigned program managers, who are responsible for meeting the cost, schedule, and performance requirements of their assigned programs. NAVAIR is the principal provider for the Naval Aviation Enterprise,

which maintains top combat effectiveness by smartly managing precious resources and attack readiness degraders, while collaborating across organization boundaries to deliver ready forces where and when they are needed. NAVAIR is headquartered in Patuxent River, MD with military and civilian personnel stationed at eight locations across the continental United States and one site overseas.

Naval Facilities Engineering Command



The Naval Facilities Engineering Command (NAVFAC) delivers and maintains quality, sustainable facilities, acquires and manages capabilities for the Navy's expeditionary combat forces, provides contingency engineering response, and enables energy security and environmental stewardship. NAVFAC is a global organization with an annual volume of business in excess of \$11 billion. NAVFAC has 18,000 Civil Engineer Corps officers, civilians and contractors who serve as engineers, architects, contract specialists and professionals to manage the planning, design, construction, contingency engineering, real estate, environmental, and public works support for Navy shore facilities around the world. As a major Navy systems command and an integral member of the Navy and Marine Corps team, NAVFAC delivers timely and effective facilities engineering solutions worldwide. NAVFAC has 12 component commands and is headquartered at the Washington Navy Yard in Washington, DC.

Naval Sea Systems Command



The Naval Sea Systems Command (NAVSEA) has a force of 60,000 civilian and military personnel including personnel assigned at public shipyards and regional maintenance centers where NAVSEA is the operating agent and technical authority. NAVSEA provides material support to the Navy, Marine Corps, and other agencies, as assigned, for ships, submarines, and other sea platforms, shipboard combat systems and components, and other surface and undersea warfare and weapons systems including ship and aviation interface systems, and surface and submarine expendable ordnance. NAVSEA exercises technical authority and certification authority for ship, submarine, diving, and weapon systems. NAVSEA reports to CNO and the Commandant of the Marine Corps for the execution of logistics sustainment and operating forces responsibilities. The organization is located at the Washington Navy Yard in Washington, DC and is responsible for chartering two warfare

centers, Naval Surface Warfare Center and Naval Undersea Warfare Center, and 9 working capital fund divisions located throughout the U.S. NAVSEA is also responsible for 9 field activities including 4 Supervisors of Shipbuilding who administer contracts with private sector shipbuilders.

Naval Special Warfare Command



The Naval Special Warfare Command (NSWC) mission is to man, train, equip, deploy and sustain Naval Special Warfare (NSW) forces for operations and activities abroad in support of combatant commanders and U.S.

national interests. The NSW community encompasses the Echelon II headquarters, Naval Special Warfare Command, and seven Echelon III commands (seven NSW Groups and the NSW Center), as well as the Echelon IV commands subordinate to the Echelon IIIs. Echelon IV commands include operational forces i.e. Special Warfare Operators (SEAL) Teams and Special Boat Teams, logistics commands, training commands and detachments, mobile communications teams, NSW Units (OCONUS), and a National Mission Force.

NSWC is currently comprised of 10,793 total funded billets (Active Duty, Reserve, Government Civilian, and Contractors), including 2,885 active-duty SEAL billets, 809 Special Warfare Boat Operator billets, 4,457 support billets, 1,012 reserve billets, 1,283 Government civilian FTE and 347 contractor FTE. The NSW Force is organized around 8 SEAL teams, one SEAL Delivery Vehicle Team, three Special Boat Teams and supporting commands which deploy forces worldwide to meet the requirements of theater commanders. NSWC constitutes 11% of U.S. Special Operations Forces and less than 2% of Navy forces. NSWC is headquartered in San Diego, CA.

Naval Supply Systems Command



Naval Supply Systems Command (NAVSUP) provides U.S. naval forces with quality supplies and services. With

headquarters in Mechanicsburg, PA, and employing a diverse workforce of more than 22,500 military and civilian personnel, NAVSUP oversees logistics programs in the areas of supply operations, conventional ordnance, contracting, resale, fuel, transportation, and security assistance. NAVSUP is responsible for quality-of-life support for our naval forces, including food service, postal services, Navy Exchanges, and movement of

household goods. In addition to its headquarters activity, the NAVSUP enterprise is comprised of four major organizations with 12 commands located worldwide.

Office of Naval Intelligence



The Office of Naval Intelligence (ONI) is the leading provider of maritime intelligence to the Navy and joint warfighting forces, as well as national decision makers and other consumers in the Intelligence Community. ONI

specializes in the analysis, production and dissemination of vital, timely and accurate scientific, technical, geopolitical and military intelligence information. The command supports a broad range of customers worldwide including the fleet, warfighters, the Navy acquisition community, national intelligence community, law enforcement agencies, foreign and coalition partners, and national decision makers. ONI employs more than 3,000 military, civilian, and mobilized reservists and contractor personnel worldwide, including analysts, scientists, engineers, specialists, and technicians. ONI is headquartered in Suitland, MD.

Office of Naval Research



Naval science and technology (S&T) delivers new capabilities to the Navy and Marine Corps that ensure

continued superiority of U.S. naval forces today and warfighters in the future. In keeping with its mandate, the Office of Naval Research (ONR) plans, fosters, and encourages scientific research in recognition of its paramount importance to future naval power and national security. Led by the Chief of Naval Research, ONR provides technical advice to the Chief of Naval Operations and the Secretary of the Navy and oversees the execution of Naval S&T objectives to support a Navy and Marine Corps that is capable of prevailing in any environment. This is done through focusing on S&T areas with big payoffs, encouraging innovative thinking and business processes, and striving to improve the transition of S&T into acquisition programs in the most cost-effective means possible, striking the right balance between responsive near-term technology insertion and long-term basic research. ONR organization employs approximately 1,050 people, comprising uniformed, civilians and contract personnel. Additional employees staff the Naval Research Lab in Washington, DC. ONR is headquartered in Arlington, VA.

Space and Naval Warfare Systems Command



As the Navy's Information Dominance systems command, the Space and Naval Warfare Systems Command (SPAWAR) develops, delivers and sustains advanced cyber capabilities for our warfighters.

SPAWAR, along with its system centers, space field activity and three program executive offices, provides the hardware and software needed to execute Navy missions. With nearly 10,000 active duty military and civilian professionals located around the world and close to the fleet, SPAWAR is at the forefront of research, engineering and acquisition, keeping our forces connected around the globe. As one of the Department of the Navy's major acquisition commands, SPAWAR's realm of expertise is in information technology. SPAWAR creates products and services that transform ships, aircraft, and vehicles from individual platforms into integrated warfighting networks, delivering and enhancing information awareness among all key players. SPAWAR pursues cutting-edge research and development for the Navy's growing cyberspace capabilities and provides the hardware and software that support manned and unmanned systems in the air, at sea, on land, and in space. SPAWAR is headquartered in San Diego, CA.

Strategic Systems Program



Strategic Systems Programs (SSP) directs the end-to-end effort of the Navy's Strategic Weapons Systems to include training, systems, equipment, facilities and personnel, and fulfill the

terms of the United States/United Kingdom Polaris Sales Agreement. SSP's five lines of business include The Strategic Weapons System, Nuclear Weapons System, Guided Missile Submarine (SSGN) Attack Weapons System, Emerging Missions, and Navy Treaty Implementation Program. In addition, Director SSP has been assigned the responsibility and authority as Nuclear Weapons Regulator via SECNAVINST 8120.1A. SSP is headquartered at the Washington Navy Yard in Washington, DC.

U.S. Fleet Forces Command



The U.S. Fleet Forces Command (COMUSFLTFORCOM) supports both the CNO and Combatant Commanders worldwide by providing responsive, relevant, sustainable Naval forces ready-for-tasking. COMUSFLTFORCOM

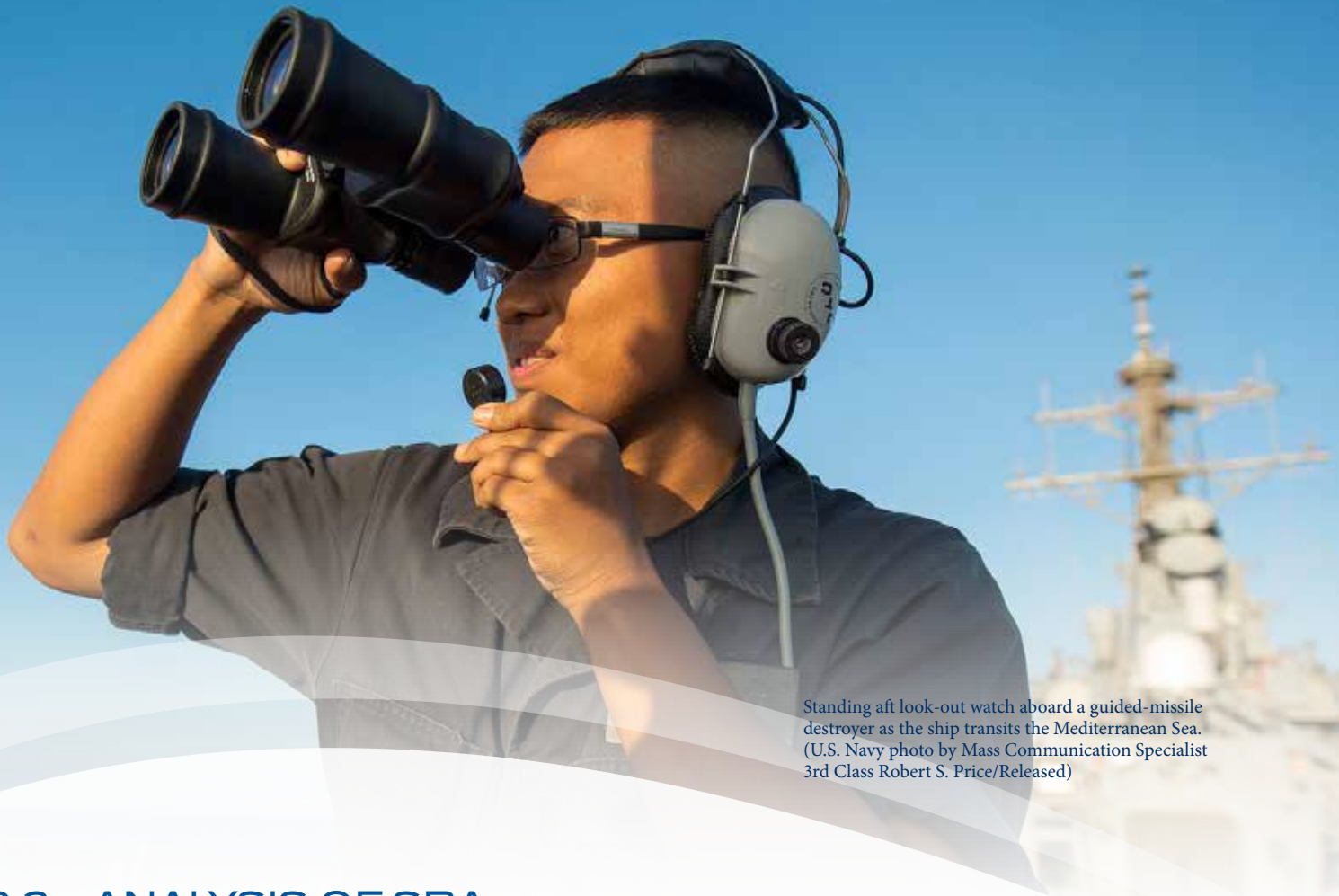
provides operational and planning support to Combatant Commanders and integrated warfighter capability requirements to the CNO. Additionally, U.S. Fleet Forces Command serves as the CNO's designated Executive Agent for Anti-Terrorism/Force Protection (ATFP), Individual Augmentees (IA), and Sea Basing. In collaboration with U.S. Pacific Fleet, U.S. Fleet Forces Command organizes, mans, trains, maintains, and equips Navy forces, develops and submits budgets, and executes readiness and personnel accounts to develop both required and sustainable levels of fleet readiness. The U.S. Fleet Forces Command has over 120,000 personnel serving around the world. COMUSFLTFORCOM is headquartered in Norfolk, VA.

U.S. Pacific Fleet



The Commander, U.S. Pacific Fleet (COMPAFLT) is the world's largest fleet command, encompassing 100 million square miles, more than half the Earth's surface. The Pacific Fleet consists of approximately 200 ships, nearly

2,000 aircraft and 143,557 Sailors, Marines and civilians. U.S. Commands that fall directly under the Pacific Fleet include "type" commands for surface ships, submarines, aircraft, and Navy construction with an annual budget of \$12.7 billion. Operational commands that report directly to the U.S. Pacific Fleet include Third Fleet in the Eastern Pacific and Seventh Fleet in Western Pacific and Indian Ocean. U.S. Pacific Fleet protects and defends the collective maritime interests of the United States and its allies and partners in the Asia-Pacific region. In support of U.S. Pacific Command and with allies and partners, U.S. Pacific Fleet enhances stability, promotes maritime security and freedom of the seas, deters aggression and when necessary, fights to win. The U.S. Pacific Fleet is headquartered at Pearl Harbor, HI.



Standing aft look-out watch aboard a guided-missile destroyer as the ship transits the Mediterranean Sea. (U.S. Navy photo by Mass Communication Specialist 3rd Class Robert S. Price/Released)

2.3 ANALYSIS OF SBA

The accompanying SBA, and related disclosures, represents the Navy's enduring commitment to fiscal accountability and transparency. Through the FIAR plan and related business transformation initiatives, discussed earlier, the Navy has made significant progress toward improving the quality and timeliness of financial information. However, the Navy is currently unable to fully implement all elements of U.S. generally accepted accounting principles (USGAAP) and OMB Circular A-136, "Financial Reporting Requirements," due to limitations of financial and non-financial management processes and systems feeding into the financial statements. Despite documented material weaknesses and because of compensating measures and close oversight, the Navy believes the budgetary information used for decision-making is accurate and reliable.

The DON General Fund includes General Fund appropriations allocated to the Navy solely, the Marine Corps solely, and for certain Treasury Account Symbols, the department allocates the apportioned funds to both the Navy and Marine Corps Budget Submitting Offices (BSOs) to execute.

The Navy developed the accompanying SBA for the Navy General Fund based on the guidance issued by the Office

of the Under Secretary of Defense (OUSD) through its Financial Improvement and Audit Readiness directorate. For purposes of the Navy SBA, and in alignment with the OUSD guidance, Navy Working Capital Fund data is excluded. The Navy and Marine Corps produce separate SBAs for their General Fund accounting activity, with each SBA undergoing an independent audit. The OUSD guidance prescribes the FY 2015 SBA to be limited to current fiscal year budget activity starting with new appropriations received in FY 2015. The accompanying Navy SBA is produced independent of any Marine Corps data and is intended to demonstrate the Navy's financial reporting improvements through our ability to effectively report current year budgetary activity.

The ability for the Navy to produce a SBA that can be reconciled to a transaction population in the field level General Ledger systems (GLs) required the implementation of a system solution. This solution, referred to as the Transaction Universe (TU), provides the Navy with a consolidated source of accounting details reconciled to the GLs month-end trial balances and then further reconciled to the data in the Defense Departmental Reporting System (DDRS)–Audited Financial Statements (AFS). DDRS-AFS is the system

used across DoD to generate period-end financial statements and other reports. As the DON moves toward increased auditability through engaging in both Navy and Marine Corps SBA audits, the TU also provides a vital capability that allows the Navy to generate a Navy-only SBA. DDORS can produce a consolidated DON-level SBA (Navy and Marine Corps), but cannot systemically generate a Navy-only SBA. The TU provides that functionality and as a result, the accompanying SBA is produced from the TU.

Navy General Fund Appropriations

The Navy General Fund supports overall Departmental operations. Enacted appropriations comprise the majority of the account structure, which includes five major appropriation groups:

- Operation and Maintenance
- Military Personnel
- Procurement
- Research, Development, Test, and Evaluation
- Military Construction

Enacted appropriations flow through OMB and the Office of the Secretary of Defense to the Office of the Secretary of the Navy, where they are allocated to administering offices and commands. The administering offices and commands, which in turn obligate the appropriations to fund operational expenses and capital investments, are required to exercise a system of effective control over financial operations.

In addition, Navy commands (or Budget Submitting Offices) engage in reimbursable work within the DON, the DoD, as well as with other federal and non-federal entities. This reimbursable work generates an additional source of budgetary spending authority (offsetting collections). The Navy's reimbursable funds are summed with direct appropriated authority, as well as other funding sources (such as Transfers-In and Transfers-Out) to create the Navy General Fund budgetary resources available to execute the Navy's mission. The SBA is a schedule developed to report these budgetary resources, as well as the associated status of those resources.

Sources of Funds

To support its core mission in FY 2015, the Navy General Fund received a total of \$143.5 billion in funds; comprised of \$136.3 billion in Appropriations, \$6.8 billion in Offsetting Collections and \$0.4 billion in Other Budgetary Resources (Transfers). These funds

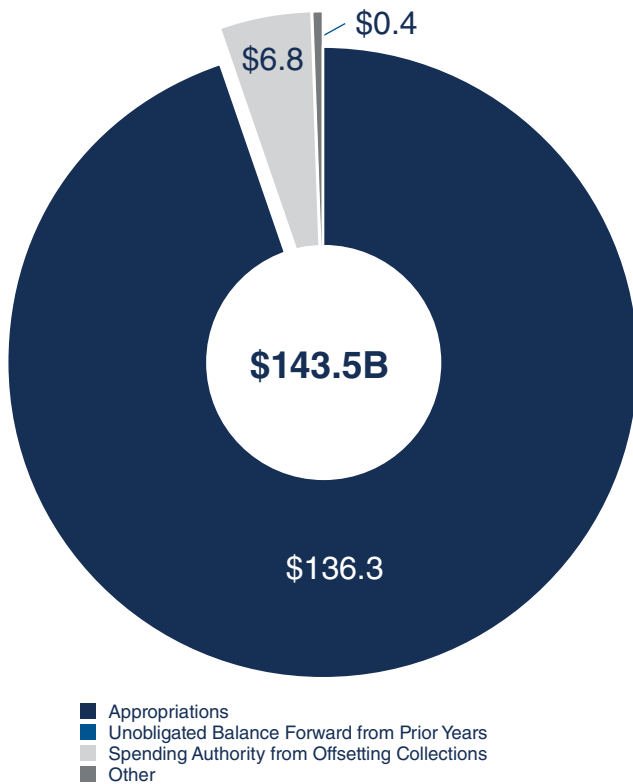
were received across a multitude of Navy General Fund appropriations, with the SBA being comprised of the following:

0513	– Ship Modernization, Operations and Sustainment Fund, Navy
0730	– Family Housing Construction, Navy and Marine Corps
0735	– Family Housing Operation and Maintenance, Navy and Marine Corps
1000	– Medicare-Eligible Retiree Health Fund Contribution, Navy
1001	– Medicare-Eligible Retiree Health Fund Contribution, Marine Corps
1002	– Medicare-Eligible Retiree Health Fund Contribution, Reserve Personnel, Navy
1003	– Medicare-Eligible Retiree Health Fund Contribution, Reserve Personnel, Marine Corps
1205	– Military Construction, Navy and Marine Corps
1235	– Military Construction, Naval Reserve
1319	– Research, Development, Test, and Evaluation, Navy
1405	– Reserve Personnel, Navy
1453	– Military Personnel, Navy
1506	– Aircraft Procurement, Navy
1507	– Weapons Procurement, Navy
1508	– Procurement of Ammunition, Navy and Marine Corps
1611	– Shipbuilding and Conversion, Navy
1804	– Operation and Maintenance, Navy
1806	– Operation and Maintenance, Navy Reserve
1810	– Other Procurement, Navy

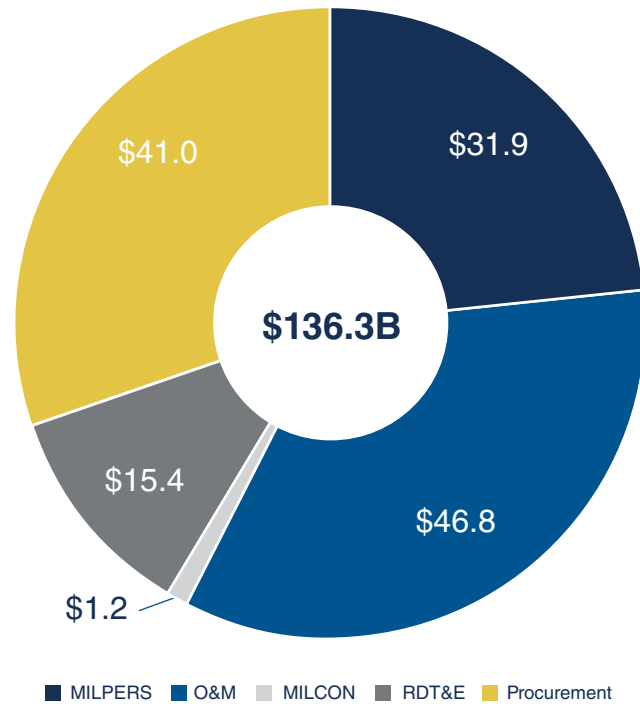


Using an alidade and sound-powered telephone. (U.S. Navy photo by Mass Communication Specialist 2nd Class Paolo Bayas/Released)

Navy Sources of Funds
(\$ in Billions)



Navy FY 2015 Appropriations
(\$ in Billions)



The Navy appropriations listed previously can be grouped by primary function, creating the following appropriation types: Military Personnel (MILPERS), Operations and Maintenance (O&M), Procurement, Research Development Technology and Evaluation (RDT&E), and Military Construction (MILCON).

Status of Funds

As of September 30, 2015, the status of the \$143.5 billion in total Navy budgetary resources reported on the SBA consisted of \$127 billion of incurred obligations (direct and reimbursable) and \$16.5 billion in unobligated balances. Additionally, of the \$127 billion obligated, the Navy General Fund had \$81.8 billion in gross outlays. The total amounts displayed for the status of budgetary resources equals the total budgetary resources available to the reporting entity as of the operating date.

Analysis of Budgetary Activity

(amounts in billions)

Key Budgetary Measure	MILCON	MILPERS	O&M	Procurement	RDT&E	Total
Obligations Incurred	\$1.0	\$32.3	\$50.5	\$29.3	\$13.9	\$127.0
Unobligated Balance	\$0.8	\$0.1	\$1.7	\$12.1	\$1.8	\$16.5
Gross Outlays	\$0.3	\$30.8	\$36.6	\$6.1	\$8.0	\$81.8

Change in Obligated Balance

The accompanying SBA is the first production of this financial schedule for the Navy. As such, analysis of key variances, changes in obligations, trends, and significant changes in balances have not been conducted. The Navy's implementation and adherence to the OUSD guidance prescribing the SBA will result in the production of a SBA in future fiscal years that will allow the Navy to conduct relevant comparative analysis.

Significant Issues

The Navy's plan to achieve compliance with financial accounting standards is today's most comprehensive business transformation initiative. Improving the Navy's financial information will provide Navy leaders with better data to make resource decisions, increase accountability for funds appropriated, reduce the risk of funds misuse, and reduce the number of unsuccessfully-processed financial transactions requiring rework.

The Navy continues to make significant progress toward meeting Congressional and DoD mandates for financial audit readiness. As discussed earlier, the Navy underwent a first year audit on its FY 2015 SBA, a significant step

toward full financial auditability. Congress has mandated in legislation that Military Departments achieve full auditability by FY 2017.

2.4 SYSTEMS, CONTROL, AND LEGAL COMPLIANCE

In support of the DON, Navy Commanders, senior leaders, and managers are obligated to safeguard the integrity of their respective programs and operations. Adherence to Federal Financial Management Improvement Act (FFMIA) and the Federal Managers' Financial Integrity Act (FMFIA) enforces the statutory requirements to comply with internal controls that address financial reporting, financial systems, and non-financial operations. Statutory requirements support the production of timely, reliable, and accessible financial information, which facilitate the development and implementation of effective and efficient internal controls. Assessable financial information, in conjunction with sufficient controls, create efficiencies to standardize processes and ultimately preserves the DON's limited resources, which is critical to our commitment to national defense and public stewardship.

Included in this section are internal control elements encompassed in the DON annual SOA, which provides management's FMFIA and FFMIA assessment on the current state of the DON's enterprise-level internal controls.

The Statement of Assurance (SOA), performance of control evaluations and identification of weaknesses was based on the DON's enterprise-level assessments and therefore not restricted to just a current year or SBA perspective

The Navy SBA is compiled through accounting and financial data resident within and processed through the Navy's enterprise-level systems and business processes.

Therefore, with some exceptions for assessments of reporting for assets that do not have a budgetary impact, the following assessments of internal controls has applicability to the accompanying SBA.

Management Assurances

The Navy's objectives of the systems of internal accounting and administrative control are to provide reasonable assurance that:

- Obligations and costs are in compliance with fiscal statutory and regulatory requirements;
- Funds, property, and other assets are safeguarded against waste, loss, unauthorized use, or misappropriation; and
- Applicable revenues and expenditures are properly recorded and accounted for, to permit the preparation of reliable accounting, financial, and statistical reports and to maintain accountability over assets.

Internal Control over Non-Financial Operations (ICONO)

The Navy Managers Internal Control Program (MICP) is the administrative vehicle for monitoring ICONO. The MICP is decentralized and encompasses ashore Commands and afloat Forces. To mitigate fraud, waste, and misuse of Navy's limited resources, the evaluation and execution of effective and efficient internal control extends to internal stakeholders and external shared service providers.

Responsibility for program execution and reporting resides within a network of 17 Major Assessable Units (MAU), which include the Assistant Secretaries of the Navy, the Chief of Naval Operations, the Commandant of the Marine Corps, Secretariat Staff Offices, and other entities that report directly to the Secretary of the Navy (SECNAV) or Under Secretary of the Navy. The MAUs perform ICONO self-assessments and maintain supporting documentation to support their FMFIA certification statements, which are the primary source for SECNAV's determination of reasonable assurance.

Complementing the self-identification of control related deficiencies, the DON's Auditor General of the Naval

Audit Service (NAVAUDSVC), in collaboration with the Deputy Assistant Secretary of the Navy, Financial Operations (DASN (FO)), conducts quarterly reviews of audit reports from the Government Accountability Office (GAO) and the Department of Defense Inspector General (DoDIG). This review assists in the identification of control deficiencies and utilizes a systematic methodology of determining materiality and potential for inclusion in the DON SOA. The high degree of collaboration and communication between the DASN (FO), MICP administrators, and the NAVAUDSVC has resulted in a consistent and comprehensive perspective on the Navy's internal control posture.

Outstanding Material Weaknesses FY 2015

INTERNAL CONTROL REPORTING CATEGORY		
CATEGORY	MATERIAL WEAKNESS	TARGET CORRECTION YEAR
Contract Administration	Contract Management – Service Contracts	FY 2015*
Acquisition	Attenuating Hazardous Noise in Acquisition & Weapon System Design	FY 2017
Communications/Intelligence/Security	Management of Communications Security (COMSEC)	FY 2015*
Communications/Intelligence/Security	Personally Identifiable Information (PII)	FY 2017
Acquisition	Earned Value Management (EVM)	FY 2015*
Contract Administration/Procurement	Execution of Husbanding Contracts – Husbanding Service Providers	FY 2016

* Corrective action implementation remains in progress as of September 2015.

In addition to ICONO assessments described above, the MICP encompasses Internal Control over Financial Reporting (ICOFR) and Internal Control over Financial Systems (ICOFS) into the department's annual SOA to support the Office of the Secretary of Defense (OSD) report to Congress and the President.

Internal Control over Financial Reporting

The Navy continues to implement processes to reach a status of full compliance with Office of Management and Budget (OMB) Circular A-123, Appendix A in conjunction with overall Navy FIAR efforts. The current focus is on achieving the FIAR objectives relative to budgetary information and mission critical asset information priorities. Through the FIAR discovery process, the Navy continues to work closely with participating commands and service providers, such as the Defense Finance and Accounting Service (DFAS), to identify, evaluate, and document the risks and internal controls associated with the end-to-end business

processes underlying the financial statements. Attention is focused on remediating material weaknesses which will allow for overall achievement of Navy's assertion goals. Documentation efforts continue as the Navy moves toward its objective of asserting audit readiness over all financial reporting segments.

In FY 2015, we identified 26 material weaknesses in General Equipment, Real Property, Operating Materials and Supplies, Inventory, Reimbursable Work Orders – Grantor and Performer, Contract Vendor Pay, Financial Statement Compilation and Reporting, Military Standard Requisitioning and Issue Procedures, Financial Reporting of Military Pay and Transportation of Things. In FY 2016, the Office of Financial Operations plans further discovery and development of corrective action plans with executable tasks to mitigate material weaknesses.

Internal Control over Financial Systems

The Navy understands ICOFS plays a key role in the generation and auditability of the financial statements. The Navy implemented a strategy for identifying and prioritizing assessment of financial and mixed systems. Over two hundred systems are utilized to support Navy's complete set of financial statements. After a system is identified as relevant or critical to the audit of a segment assertion package, the Navy works with segment managers to collect additional data points that will affect the assessment scope, approach, and timeline.

The Navy conducted Federal Information System Controls Audit Manual (FISCAM) assessments on selected IT systems and coordinated with Office of the Secretary of Defense (OSD) and service providers such as DFAS, Defense Logistics Agency (DLA), and Defense Contract Management Agency (DCMA) to identify and prioritize feeder system assessments. The Navy continued to refine its strategy for assessing legacy and Enterprise Resource Planning (ERP) system controls and prioritized IT controls based on FISCAM and FIAR guidance to ensure financial data integrity and reliability. For FY 2015, the Navy performed the following tasks to facilitate an auditable financial systems environment:

- Established an inventory of key and ancillary Navy IT systems;
- Assessed key and ancillary systems;
- Continued to work with the Financial Information System Working Group to address enterprise IT control guidance;
- Worked to streamline efficient assessment of IT controls for those data centers serving Navy financial systems;
- Continued to collaborate with shared service providers to document interfaces and interactions between IT systems and address Complementary User Entity Controls; and
- Communicated IT system audit readiness expectations, guidance and status, workshops, and training.

The Statement of Assurance (SOA) is generated annually in support of the DON's enterprise-level assessments and therefore not restricted to just a current year or SBA perspective. A copy of the signed FY2015 DON SOA letter is presented below.



Placing the SPS-48 air search radar on the USS Abraham Lincoln while undergoing a refueling complex overhaul (RCOH) at Newport News Shipbuilding. (U.S. Navy photo by Mass Communication Specialist 3rd Class Ryan L. Wampler/Released)



THE SECRETARY OF THE NAVY
WASHINGTON DC 20350-1000

October 14, 2015

MEMORANDUM FOR THE SECRETARY OF DEFENSE

SUBJECT: Annual Statement Required Under the Federal Managers' Financial Integrity Act
for Fiscal Year 2015

As the Secretary of the Navy, I recognize that the Department of the Navy (DON) is responsible for establishing and maintaining effective internal controls to meet the objectives of the Federal Managers' Financial Integrity Act (FMFIA). Tab A provides specific information on how the DON conducted the assessment of operational internal controls, in accordance with OMB Circular A-123, Management's Responsibility for Internal Control, and provides a summary of the significant accomplishments and actions taken to improve the DON's internal controls during the past year.

I am able to provide a qualified Statement of Assurance (SOA) that operational internal controls of the DON meet the objectives of FMFIA, with the exception of six unresolved material weaknesses described in Tab B. These weaknesses were found in the internal controls over the effectiveness and efficiency of operations and compliance with applicable laws and regulations, as of the date of this memorandum. Other than these material weaknesses, the internal controls were operating effectively.

The DON conducted its assessment of the effectiveness of internal controls over financial reporting in accordance with OMB Circular A-123, Appendix A, Internal Control over Financial Reporting. Tab A-1 provides specific information on how the DON conducted this assessment. Based on the results of this assessment, the DON is able to provide a qualified SOA that the internal controls over financial reporting as of June 30, 2015, were operating effectively with the exception of the following: DON – 26 material weaknesses and United States Marine Corps (USMC) – 8 material weaknesses as noted in Tab C.

The DON also conducted an internal review of the effectiveness of the internal controls over the integrated financial management systems. Tab A-1 provides specific information on how the DON conducted this assessment. Based on the results of this assessment, the DON is able to provide a qualified SOA that the internal controls over the integrated financial management systems as of June 30, 2015, are in compliance with the Federal Financial Management Improvement Act and OMB Circular A-123 Appendix D, with the exception of the following: DON – 17 non-conformance and USMC – 3 non-conformance as noted in Tab C.

A classified annex will be forwarded under separate cover.

2.5 LOOKING FORWARD

The Navy's achievements during FY 2015 established a firm foundation that will assure future success in executing its mission and building a sound business operating environment. In FY 2016, the Navy will focus on achieving the following priorities: provide a credible, modern, and safe strategic deterrent; global forward presence of combat ready forces; preserve the means to defeat one aggressor and simultaneously deny the objectives of a second; focus on critical afloat and ashore readiness and personnel; sustain asymmetrical advantages; and sustain a relevant industrial base.

Personnel

In FY 2016, the Navy will begin increasing the number of Sailors over a 5-year period to properly size manpower accounts to reflect force structure decisions, reduce manning gaps at sea, and improve Fleet readiness. The continued focus will be on recruiting and retention to retain the optimal mix of Sailors that maintain the right skills and experience to adequately man the Fleet. The Navy will continue improving the quality of life for Sailors and implementing quality of service initiatives funded with compensation reform savings.

Readiness

The Navy continues to support the requirements to respond to persistent as well as emerging threats. The Navy deploys full-spectrum-ready forces to further

security objectives in support of U.S. interests. Every day, more than 100 ships and submarines, embarked and shore based air squadrons, and Navy personnel ashore are on watch around the globe.

Overseas Contingency Operations

The Navy overseas force posture is shaped by ongoing and projected operational commitments. On any given day, there are 4,600 Sailors ashore and another 10,000 afloat throughout the U.S. Central Command. These Sailors are conducting operations such as maritime infrastructure protection, explosive ordnance disposal, combat construction engineering, cargo handling, combat logistics, maritime security, detainee operations, customs inspections, civil affairs, base operations, and other forward presence activities. For the foreseeable future, the demand for naval presence in theater remains high as we uphold commitments to allies and partner states.

Financial Operations

The Navy's plan to achieve compliance with financial accounting standards is its most comprehensive business transformation initiative. The Navy is undergoing an audit on its FY 2015 SBA – a significant step towards full financial auditability which Congress has mandated into legislation that the Military Departments achieve full auditability by FY 2017. The Navy is making steady progress toward this goal.

2.6 GOALS AND THE SUPPORTING FINANCIAL SYSTEM STRATEGIES

The Navy's financial system goals and supporting strategies focus on modernizing current systems and addressing certain identified system limitations; in order to support new financial requirements and continue to provide management with accurate and timely financial information.

The DON FIAR Program is a multiyear, Department-wide effort to modernize Navy financial processes and systems to better serve worldwide operations. The goal of the FIAR efforts is to produce more timely financial management information with greater accuracy, reliability, and accessibility. With improved information, the Navy can allocate resources in a more precise way and move closer to producing auditable financial statements.

As described in previous sections, the Navy applied a defined strategy to advance the status of the auditability and reliability of our key systems. This included utilization of resources to conduct FISCAM assessments on selected IT systems through coordinated efforts with OUSD and our service providers. The DON prioritized IT controls based on FISCAM and FIAR guidance to ensure financial data integrity and reliability. While a subset of those systems would not have a direct impact on the transactions and balances represented in the SBA, the material SBA systems are managed within the Navy's system assessment strategy. The Navy is continuing to develop and execute corrective actions to address internal control system weaknesses and FFMIA non-conformance.

2.7 OTHER MANAGEMENT INFORMATION, INITIATIVES, AND ISSUES

During FY 2015, the Navy established the Evaluation, Prioritization, and Remediation (EPR) program. The EPR is designed to assess the overall health of the Navy's audit readiness and sustainment posture through routine testing of processes and controls that impact financial events. Through these initiatives, EPR will: institutionalize a Navy-wide culture of self-assessment to enable the Navy to be audit ready by coordinating and overseeing audit sustainment activities; facilitate BSO ownership

of audit sustainment work streams down to the lowest echelons; and recommend changes to owners and inform Secretariat and Service Level Program Managers of recommended changes. The program creates a centralized capability to manage and track the remediation of deficiencies across the department, in order to generate clean financial statements while focusing resources on the highest priority issues.

2.8 LIMITATIONS OF THE SCHEDULE OF BUDGETARY ACTIVITY

The SBA has been prepared to report the budgetary activity of the entity, pursuant to the requirements defined by OUSD in its FIAR guidance. This reporting schedule is intended to be a supplemental report, based on the full financial statements that are defined by 31 U.S.C. 3515(b). The full financial statements have been prepared from the books and records of the entity in accordance with USGAAP for Federal entities and the formats prescribed by Office of Management and Budget (OMB). The SBA has been prepared from the books and records of the Navy, to the extent possible, by following

USGAAP promulgated by the Federal Accounting Standards Advisory Board; the Office of Management and Budget (OMB) Circular No. A-136, "Financial Reporting Requirements"; and the DoD, Financial Management Regulation (FMR). The accompanying SBA accounts for all budgetary resources, based on OUSD guidance that defines the reporting requirements, for which the Navy is responsible unless otherwise noted. The SBA should be read with the realization that it is for a component of the U.S. Government, a sovereign entity.



3.0 AUDIT OPINION

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INSPECTOR GENERAL
DEPARTMENT OF DEFENSE
4800 MARK CENTER DRIVE
ALEXANDRIA, VIRGINIA 22350-1500

February 29, 2016

MEMORANDUM FOR UNDER SECRETARY OF DEFENSE (COMPTROLLER)/
CHIEF FINANCIAL OFFICER
ASSISTANT SECRETARY OF THE NAVY (FINANCIAL
MANAGEMENT AND COMPTROLLER)
DIRECTOR, DEFENSE FINANCE AND ACCOUNTING SERVICE
NAVAL INSPECTOR GENERAL

SUBJECT: Transmittal of the Disclaimer of Opinion on the United States Navy Schedule
of Budgetary Activity for FY 2015 (Report No. DODIG-2016-057)

We contracted with the independent public accounting firm of Cotton & Company, LLP, to audit the FY 2015 the United States Navy Schedule of Budgetary Activity (Schedule). The contract required Cotton & Company to conduct the audit in accordance with generally accepted government auditing standards, Office of Management and Budget audit guidance, and the Government Accountability Office/President's Council on Integrity and Efficiency "Financial Audit Manual," July 2008. The Independent Auditor's Report from Cotton & Company is attached.

Cotton & Company's audit resulted in a disclaimer of opinion. Its report does not make an opinion on the Schedule because the Navy could not provide sufficient appropriate audit evidence regarding its completeness, accuracy, and fair presentation. Additionally, Cotton & Company identified three material internal control weaknesses: ineffective controls over information technology, ineffective controls over financial reporting, and ineffective transactional controls. Finally, Cotton & Company identified three instances of noncompliance with the Federal Financial Management Improvement Act.

In connection with the contract, we reviewed the Cotton & Company report and related documentation and discussed the audit results with Cotton & Company representatives. Our review, as differentiated from an audit in accordance with GAGAS, was not intended to enable us to express, and we do not express, an opinion on the Navy Schedule for FY 2015, conclusions about the effectiveness of internal control, conclusions as to whether the Schedule substantially complied with the Federal Financial Management Improvement Act of 1996, or conclusions on whether the Schedule complied with laws and regulations. Cotton & Company is responsible for the attached auditor's report, dated February 29, 2016, and the conclusions expressed in the report. However, our review disclosed no instances in which Cotton & Company did not comply, in all material respects, with GAGAS.

We appreciate the courtesies extended to the staff. Please direct questions to me at (703) 601-5945.



Lorin T. Venable, CPA

Assistant Inspector General

Financial Management and Reporting

Attachments: As stated

INDEPENDENT AUDITORS' REPORT

The Secretary of the United States Navy
Inspector General of the Department of Defense

In our engagement to audit United States (U.S.) Navy's (Navy) General Fund Schedule of Budgetary Activity (the Schedule) for the fiscal year (FY) ended September 30, 2015, we:

- Were not able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion.
- Found three material weaknesses in internal control over financial reporting as of September 30, 2015.
- Found no reportable noncompliance with the provisions of applicable laws, regulations, contracts, and grant agreements we tested, exclusive of those referred to in the *Federal Financial Management Improvement Act of 1996* (FFMIA).
- Found that Navy's financial management systems did not substantially comply with the requirements of FFMIA.

The following sections contain (1) our report on Navy's Schedule and on required supplementary information (RSI) and other information included with the Schedule, and (2) other reporting required by *Government Auditing Standards*, which includes our report on Navy's internal control over financial reporting; our conclusions on the Navy's compliance with laws, regulations, contracts, and grant agreements; and the Navy's comments on a draft of this report.

REPORT ON THE SCHEDULE OF BUDGETARY ACTIVITY

We were engaged to audit the Navy's Schedule for the FY ended September 30, 2015, and the related notes.

Management's Responsibility for the Schedule

Management is responsible for the preparation and fair presentation of the Schedule in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of the Schedule that is free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on the Schedule based on conducting the audit in accordance with auditing standards generally accepted in the United States of America; standards applicable to financial statement audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and Office of Management and Budget (OMB) Bulletin No. 15-02, *Audit Requirements for Federal Financial Statements*. Because of the matters described in the Basis for Disclaimer of Opinion paragraph, however, we were not able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion.

Basis for Disclaimer of Opinion

Navy has pervasive control deficiencies in its decentralized financial management and information technology (IT) environment. Specifically, Navy lacked effective IT controls over its general ledger systems and financial feeder systems; lacked controls necessary to ensure the completeness of the universe of transactions, account balances, and Schedule line items; and lacked controls, including controls to ensure the availability of appropriate source

documentation, over its transactions. As a result, we were unable to obtain sufficient appropriate audit evidence regarding the completeness and accuracy of the Schedule, and we were unable to satisfy ourselves by alternative procedures concerning the fair presentation of the Schedule.

Disclaimer of Opinion

Because of the significance of the matters described in the Basis for Disclaimer of Opinion paragraph, we have not been able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion. Accordingly, we do not express an opinion on the Schedule.

Emphasis of Matter

As described in Note 1.B., the Schedule has been presented in accordance with guidance issued by the Office of the Under Secretary of Defense. The Schedule presents the Navy's current-year budgetary activity of its general funds starting with appropriations received in FY 2015 and is not intended to be a complete presentation of the Navy's budgetary resources, status of resources, and outlays.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis and the Disaggregated Schedule of Budgetary Activity, as listed in the Table of Contents, be presented to supplement the Schedule. Such information, although not a part of the Schedule, is required by the Federal Accounting Standards Advisory Board (FASAB), who considers it to be an essential part of financial reporting for placing the Schedule in an appropriate operational, economic, and historical context. We applied certain limited procedures to the RSI, which consisted of inquiring with the Navy regarding its information preparation methods and comparing its responses with the Schedule for consistency. We do not express an opinion or provide any assurance on the RSI because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance. Further, the significance of the matters described in the Basis for Disclaimer of Opinion paragraph raise doubts as to whether material modifications should be made to the RSI for it to be presented in accordance with guidelines established by FASAB.

Other Information

The Message from the Assistant Secretary of the Navy for Financial Management and Comptroller, as listed in the Table of Contents, has not been subjected to auditing procedures and, accordingly, we do not express an opinion or provide any assurance on it.

OTHER REPORTING REQUIRED BY *GOVERNMENT AUDITING STANDARDS*

Report on Internal Control and on Compliance

Internal Control over Financial Reporting

In connection with our engagement to audit Navy's Schedule, we considered Navy's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing an opinion on the Schedule, but not for the purpose of expressing an opinion on the effectiveness of Navy's internal control. Accordingly, we do not express an opinion on the effectiveness of Navy's internal control.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected, on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our procedures were for the limited purpose described in the first paragraph of this section and were not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and, therefore, material weaknesses or significant deficiencies may exist that were not identified.

However, we identified deficiencies in internal control that, when combined, we consider to be three material weaknesses. These material weaknesses are described in Appendix A.

Compliance

In connection with our engagement to audit Navy's Schedule, we performed tests of Navy's compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of Schedule amounts and certain provisions of other laws and regulations specified in OMB audit guidance, including the provisions referred to in the FFMIA, Section 803(a). However, providing an opinion on compliance with those provisions was not an objective of our engagement, and accordingly, we do not express such an opinion.

We did not test compliance with all laws and regulations applicable to Navy. We limited our tests of compliance to those provisions of laws and regulations that we deemed applicable to the Schedule for the FY ended September 30, 2015, that OMB audit guidance requires that we test. Our tests of compliance with provisions of laws, regulations, contracts, and grant agreements described above, exclusive of those referred to in FFMIA, disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* or OMB audit guidance.

Under FFMIA, we are required to report whether Navy's financial management systems substantially comply with (1) federal financial management system requirements, (2) applicable federal accounting standards, and (3) application of the United States Standard General Ledger (USSGL) at the transaction level. To meet this requirement, we performed tests of compliance with FFMIA Section 803(a) requirements. The results of our tests of FFMIA disclosed instances in which the Navy did not substantially comply with federal financial management system requirements, applicable accounting standards, and the USSGL at a transaction level. These are described in Appendix B.

Additionally, if the scope of our work had been sufficient to enable us to express an opinion on the Schedule, other instances of noncompliance or other matters may have been identified and reported herein.

Navy's Response to Findings

Navy's response to the findings identified in our audit is included in Appendix C. Navy concurred with the findings in our report. Navy's response was not subjected to auditing procedures and, accordingly, we express no opinion on it.

Purpose of Other Reporting Required by Government Auditing Standards

The purpose of this communication regarding "Other Reporting Required by *Government Auditing Standards*" is solely to describe the scope of our limited testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of Navy's internal control or on compliance. Accordingly, this communication is not suitable for any other purpose.

COTTON & COMPANY LLP



Alan Rosenthal, CPA, CFE
Partner
Alexandria, VA
February 29, 2016

APPENDIX A
MATERIAL WEAKNESSES NOTED DURING THE ENGAGEMENT

APPENDIX A: MATERIAL WEAKNESSES NOTED DURING THE ENGAGEMENT

During our engagement to audit the Navy's FY 2015 Schedule, we identified control deficiencies, that when combined, we consider to be three material weaknesses in internal control. These material weaknesses are described in this Appendix.

Finding 1: Ineffective Controls over Information Technology (Material Weakness)

The Navy has not identified and put in place effective IT controls over its significant number of general ledger and financial feeder systems. We identified pervasive IT weaknesses that substantially increase the likelihood of Navy financial data being incomplete or inaccurate without management's direct knowledge. We reviewed the IT deficiencies identified during our engagement both individually and in the aggregate, and determined that in the aggregate, they represent a material weakness. Deficiencies that had a significant impact on IT being a material weakness were:

- **Security Management.** Security management controls help provide reasonable assurance that management is effectively identifying and mitigating risks within their IT environment. The Navy did not implement effective security management controls to ensure risks related to financial systems and data were appropriately identified, tracked, and timely mitigated. The Navy has a significant number of financial information systems, including four separate general ledger accounting systems (GLAS) and more than 100 financial feeder systems. These systems are managed in a highly decentralized environment, with responsibility for systems development, maintenance, and security pushed down to lower levels within the Navy. The significant number of financial information systems and the decentralized nature of the IT environment make it onerous for the Navy to manage its system inventory, as well as track the status of the security over each system. While the Navy identified key financial systems relevant to the Schedule, we noted that management did not have a comprehensive understanding of the dollars that flow through those systems or the role each of those feeder systems plays in that process.
- **Access Controls.** Access controls help provide reasonable assurance that access to computer resources (data, equipment, and facilities) is appropriately restricted to authorized individuals. The Navy did not implement effective access controls around the granting, periodic review, and timely removal of user access to financial systems. The Navy consistently did not document when and for whom access was granted on user access request forms, and inactive accounts were not routinely disabled or deleted in a timely manner. In addition, the Navy did not consistently implement effective audit logging and monitoring controls at the database-, operating system-, and application-levels, including the periodic review of application-level security logs.
- **Segregation of Duties.** Segregation of duty controls help provide reasonable assurance that incompatible duties are effectively segregated. The Navy did not implement effective segregation of duty controls at the database-, operating system-, and application-levels. The Navy did not consistently identify what activities within financial systems were incompatible and where incompatible access privileges were required for valid business purposes. The Navy did not identify compensating controls to mitigate risks where possible. In addition, we noted serious segregation of duty issues in the production environment of Navy's ERP financial system, including developers with full access privileges, as well as administrators and end users with excessive privileges.
- **Configuration Management.** Configuration management controls help provide reasonable assurance that changes to information system resources are authorized and systems are configured and operated securely. The Navy did not consistently implement effective configuration management controls at the operating system-, database-, and application-levels. We noted deficiencies related to the documentation and review of changes and movement of code between various environments, and excessive access granted to individuals involved in the change management process.

- **Interface Controls.** Interface controls help ensure the timely, accurate, and complete processing of information between applications. The Navy did not consistently implement effective interface controls to ensure the completeness and accuracy of financial data flowing between Navy and third-party provider financial systems. The Navy did not consistently have interface control agreements that clearly outlined how interfaces worked and what reconciliations were in place to ensure completeness and accuracy of financial data flowing between systems.
- **Third-Party Systems.** Controls over third-party service provider systems help Navy management ensure that Navy financial data residing in systems outside of their direct control are adequately protected. The Navy did not implement effective controls over third-party service provider systems, including the identification of key points of contact within the Navy, development of appropriate service level agreements with third-party service providers, periodic review of available Service Organization Control (SOC) reports, and identification and implementation of complementary user entity controls identified in third-party SOC reports.

We used the following criteria during our engagement:

- National Institute of Standards and Technology (NIST) Special Publication (SP) 800-53, Revision 4, *Security and Privacy Controls for Federal Information Systems and Organizations*
- NIST SP 800-37, Revision 1, *Guide for Applying the Risk Management Framework to Federal Information Systems*
- OMB Circular No. A-123, *Management's Responsibility for Internal Control*
- The Department of Defense (DoD) Instruction Number 8500.2, *Information Assurance Implementation*
- Government Accountability Office (GAO) *Standards for Internal Control in the Federal Government*

The Navy did not have an effective risk management framework in place to ensure that appropriate security controls over financial systems and data were identified, put in place, and periodically tested for effectiveness. In addition, we noted day-to-day security management activities were highly decentralized, with little to no centralized oversight from Navy management. As a result, the identified IT security weaknesses substantially increase the risk of Navy financial data being incomplete or inaccurate.

We recommend Navy management:

- Strengthen existing risk management activities to ensure appropriate controls over financial systems at the operating system-, database-, and application-levels are identified, placed in operation, and periodically evaluated for effectiveness. Specifically, the Navy should address IT deficiencies related to security management, account management, logging and monitoring, segregation of duties, configuration management, interfaces, and controls over third-party systems.
- Centralize financial information security management activities where possible.

Finding 2: Ineffective Controls over Financial Reporting (Material Weakness)

During our engagement to audit the FY 2015 Schedule, we identified a number of control deficiencies that aggregate to a material weakness in internal control over financial reporting. OMB Circular A-123, *Management's Responsibility for Internal Control*, requires the Navy to design controls to provide reasonable assurance regarding the reliability of financial reporting. Reliability of financial reporting means that management can reasonably make the following assertions:

- All reported transactions actually occurred during the reporting period.
- All transactions that should be reported are included and no unauthorized transactions or balances are included.
- All transactions are properly valued, and where applicable, all costs are properly allocated.

- Documentation for internal control, all transactions, and other significant events is readily available for examination.

Specifically, we identified the following areas in which financial reporting controls are not effective and need improvement:

1. Controls to ensure the completeness and accuracy of the Navy's transactions and account balances in the GLAS are not in place or are not operating effectively.
2. Controls over the preparation of the Schedule and the supporting transactional detail, including the Navy's controls over its service provider, are not effective.
3. Controls over journal vouchers (JV) need improvement.
4. Controls over Fund Balance with Treasury (FBWT) reporting and reconciliations, including the Navy's related controls over its third-party service provider, need improvement.

We provide details of these deficiencies below.

1. Controls to ensure the completeness and accuracy of the Navy's transactions and account balances in the GLAS are not in place or are not operating effectively.

The Navy has no assurance that transactions are completely and accurately recorded in its four GLAS because it has not designed and implemented sustainable and recurring manual and automated reconciliations with the Navy's more than 100 feeder systems. The design and implementation of manual and automated feeder system to GLAS reconciliations is a major undertaking, given the complexity of the Navy's decentralized information systems and the identified pervasive IT weaknesses. The Navy recognizes the need to design and implement the reconciliations and has made progress in defining and documenting its strategy and approach; however, the Navy has not designed and implemented manual and automated feeder-system-to-GLAS reconciliations to help ensure the entire population of financial transactions is reported completely and accurately in the Schedule, and its plans indicate that it will likely be FY 2018 before a significant portion of the manual and automated feeder-system-to-GLAS reconciliations are in place.

The Navy performs two reconciliations of budgetary authority. These reconciliations of material amounts were either not designed properly or were not operating effectively.

- The Navy distributes budget authority to commands by issuing a funding authorization document. On a monthly basis, commands are responsible for reconciling appropriated budget authority between authorization documents and the proprietary general ledger accounts in the GLAS. These reconciliations are not properly designed, however, because the Navy does not reconcile budget authority recorded in its GLAS budgetary general ledger accounts, including spending authority from offsetting collections, to the funding authorization documents. Moreover, differences are not always properly documented, investigated, and resolved timely.
- The Navy also performs an enterprise-wide quarterly reconciliation of its appropriated budget authority in its budget system to its GLAS and U.S. Department of the Treasury (Treasury) records; however, the Navy does not always research and resolve identified differences timely. Additionally, the Navy does not complete the reconciliation in advance of the preparation of the Schedule or on a monthly basis. The Navy finalized the related standard operating procedure during the year; however, it does not address the timeliness or frequency of the reconciliation.

Additionally, on a bi-weekly basis, the civilian payroll system generates a payroll expense file, which is imported to the Navy's GLAS. Depending upon the GLAS used, either the Navy's commands (Navy ERP) or its service provider (legacy GLAS) is responsible for reconciling the civilian payroll expense file to the GLAS. Due to lack of or inconsistent policies and procedures, these reconciliations are not consistently prepared and approved, and differences are not always investigated and resolved timely to ensure the accuracy and completeness of the civilian payroll transactions recorded in the GLAS.

The lack of effective internal controls to ensure the completeness of the Navy's transactions recorded in the GLAS increases the risk that appropriations, obligations incurred, spending authority from offsetting collections, and outlays reported in the Schedule are misstated because the budget authority, disbursement, and collection transactions are not complete or accurate.

We recommend Navy management:

- Continue implementing its strategy and approach for designing and placing in operation sustainable and recurring manual and automated reconciliations between the feeder systems and the GLAS.
 - Revise the procedures for command-level monthly reconciliations of budget authority to the GLAS to include budgetary general ledger accounts; include spending authority from offsetting collections; and ensure that differences are investigated, documented, and resolved in a timely manner.
 - Revise the procedures for the enterprise-wide reconciliation of appropriated budget authority to the budget system and Treasury records to ensure all differences are investigated, documented, and resolved timely, and the reconciliation is completed monthly and in a timely manner.
 - Develop and implement standard operating procedures for performing a bi-weekly reconciliation of the civilian payroll expense file to amounts recorded in the GLAS; centralize responsibility for performing a comprehensive review of the reconciliations to quantify all differences; and monitor corrective actions for timely resolution to ensure the accuracy and completeness of the payroll transactions recorded in the GLAS.
- 2. Controls over the preparation of the Schedule and the supporting transactional detail, including the Navy's controls over its service provider, are not effective.**

The Navy uses highly complex, multi-step financial reporting processes, workarounds, and a multitude of both general ledger and non-general ledger systems to produce financial reports, including the Schedule. This complexity obscures the Navy's visibility of a transaction's flow from its point of origin to its presentation in the financial statements, complicating the Navy's ability to substantiate amounts presented in the Schedule. The service provider performs much of the financial reporting process and involves the Navy's multiple GLAS, the cash management and budget systems, and its service provider's financial reporting system. The Navy uses numerous crosswalks and complex overlay processes with the intent to record its transactions in the proper USSGL accounts and help ensure that budgetary resources, collections, and outlays are complete. These processes include:

- Crosswalking activity recorded in each GLAS to the service provider's financial reporting system.
- Overlaying collection and outlay activity imported from the GLAS into the financial reporting system with activity recorded in its cash management system.
- Overlaying budgetary authority imported from the GLAS into the financial reporting system with amounts recorded in its budget system.

In addition, the large volume of JVs compounds the complexity of the financial reporting process. For example, during March 2015, more than 20,000 JVs were recorded by the Navy and its service provider in the financial reporting system, approximately 75 percent of which were system-generated JVs related to the overlay processes. The risks inherent in the financial reporting process necessitate that the Navy and its service provider perform resource-intensive, interdependent activities to reduce the risk of material misstatement in its Schedule.

The Navy has pervasive internal control deficiencies related to these financial reporting processes. Specifically, the Navy does not have documented and repeatable processes or proper oversight over the preparation of its Schedule and the underlying transactional detail supporting the Schedule. In addition, the Navy did not provide oversight of its service provider responsible for the organization, analyses, validations, and adjustments of financial data culminating in the production of budgetary reports and the Schedule.

Due to the inherent risk and control deficiencies, including the lack of oversight while preparing the Schedule, the Navy submitted an inaccurate and unreliable Schedule. The Navy submitted multiple versions of the first quarter Schedule because certain U.S. Marine Corps balances were incorrectly presented on the Schedule; the Navy had not concluded whether two appropriations should be presented on the Schedule; and expected line item relationships did not exist within the Schedule. We performed limited procedures over Navy's September 30, 2015, Schedule, including accompanying footnotes and RSI, and noted amounts exempt from apportionment were improperly classified as apportioned, a footnote disclosure had not been updated from the third quarter, and the Disaggregated Schedule was not properly presented as RSI. In addition, we noted U.S. Marine Corps amounts reported on the Schedule that should have been excluded.

Moreover, the Navy did not provide evidence of any Schedule line item relationship tests or supervisory reviews over the Schedule, which could have reduced the need for multiple versions. As of the end of the FY, and with its yearend submission, the Navy had not provided procedures for producing the Schedule, including a formalized quality review process.

Navy lacks documented and repeatable processes and quality control reviews over the preparation and delivery of the file containing the underlying transactional detail supporting amounts recorded in its four GLAS. During the engagement, the Navy produced multiple versions of the file, commonly referred to as the single point transaction universe or "SPTU," because it contained unreliable, inconsistent, or inaccurate financial information, including duplicate activity, data outside the scope of the Navy's Schedule, and inaccurate account codes. Additionally, the Navy did not provide a reconciliation of the SPTU to the GLAS until it submitted the second quarter SPTU for audit. Multiple versions of the SPTU resulted in questions concerning its accuracy and reliability, as well as delays in the audit sample selection.

Lastly, Navy did not exercise sufficient oversight of its service provider, the organization responsible for performing Navy's financial reporting activities. The service provider's operations assume certain complementary user-entity controls (CUEC) will be placed in operation by user entities, including the Navy, to ensure completeness, accuracy, and validity of feeder file trial balance amounts, JVs, and outputs, such as budget execution reports and the Schedule. However, the Navy did not implement the CUECs that would ensure the accuracy and validity of its financial data. During FY 2015, the Navy had opportunities to review other outputs from the service provider during the financial reporting process, including budget execution reports, crosswalks from feeder file trial balances to those trial balances used to generate the Schedule, and excluded lines of accounting. Additionally, the Navy did not evidence its review of its service provider activities.

Without sufficient controls over financial reporting, including a documented and repeatable process over the production of the Schedule and SPTU and oversight of its service provider, errors in the Schedule may not be prevented, or detected and corrected timely.

We recommend Navy management:

- Coordinate with its financial reporting service provider to reduce reliance on complex crosswalks and overlay processes used to record transactions in general ledger accounts and produce the Schedule. In the interim, periodically reconcile the crosswalks and overlay processes, and take any necessary corrective actions.
- Develop and implement documented and repeatable quality control procedures for preparing and reviewing the Schedule and SPTU.
- Periodically assess the internal control activities over the preparation and review of the Schedule and SPTU and make adjustments as necessary.
- Assign responsibility to Navy personnel to review and approve its service provider financial reporting activities to ensure the Schedule accurately represents the Navy's budgetary activities.

3. Controls over journal vouchers need improvement.

Given the complex financial reporting environment and related processes, a significant number of JVs must be recorded in the Navy's GLAS and financial reporting system to generate the Schedule, compliant with federal reporting requirements. Each reporting period, the Navy and its service provider recorded more than 2,500 FY 2015 general fund appropriation-related JVs in its financial reporting system. Additional JVs are required to align budgetary and proprietary balances, agree balances to Treasury and Navy's trading partners, and record other activities not captured in the GLAS. The large volume of JVs that require processing within established timeframes, coupled with the complexity of the Navy's operations, creates an environment susceptible to posting logic and other errors.

The Navy does not have adequate controls over adjusting journal entries. JVs prepared by the Navy and its service provider are not always properly supported, lack the underlying transactional detail, or lack complete explanations for their purpose. For example, entries are recorded without underlying support to agree amounts with Treasury or trading partner balances to meet external reporting requirements. Moreover, supervisory reviews did not detect incorrect posting logic or improperly classified amounts, and were not always performed timely. Though the Navy began designing and implementing procedures for approving all JVs prepared by its service provider exceeding \$1 billion during FY 2015, these reviews were not always consistently and properly performed. In addition, Navy personnel reviewing the JVs were not always delegated authority to perform the review, and its service provider recorded certain JVs in advance of the Navy's review. We tested 323 JVs and noted:

- 47 were not properly supported because they lacked sufficient transactional detail or complete explanations of the JV's purpose.
- 35 were recorded to incorrect general ledger accounts or with incorrect amounts.
- 51 were not properly reviewed or approved.

In addition, system-generated JVs recorded in the financial reporting system designed to reverse the Navy's budgetary authority and disbursement and collection activity recorded in the cash management and budget systems did not always have their intended effect. The reversing JV was not always recorded in the same general ledger account as the original entry, and not all data fields matched the original entry.

The Navy has also not fully implemented quality and compliance review controls over JVs recorded in its GLAS. Commands' monthly GLAS JV reports were not compliant with Navy reporting guidelines, were not timely submitted, or were never submitted. Not all Navy commands have implemented quarterly quality and compliance reviews of JVs recorded in the GLAS. In addition, the Navy is not monitoring or reviewing JVs recorded in the financial reporting system by its commands.

Without effective internal controls over JVs recorded in the GLAS and the financial reporting system, errors may not be prevented or detected and corrected timely, which increases the risk for misstatements on the Schedule.

We recommend Navy management:

- Update and enforce procedures requiring Navy personnel to review financial reporting system outputs prior to the preparation of the Schedule, and increase oversight of its service provider to ensure that analyses are complete and JV packages are prepared in accordance with guidelines before recording entries.
- Implement procedures to ensure that Navy personnel have the authority to review and approve all JVs recorded in the financial reporting system exceeding \$1 billion, and that this review is performed before the entry is recorded by service provider personnel.
- Coordinate with its service provider to ensure monthly reconciliation of all system-generated JVs and verify JVs have their intended effect, as well as collaborate with all Navy field-level entities to implement monitoring and recording procedures.
- Enforce field-level JV monitoring and reporting requirements, including reiterating or clarifying requirements and providing additional training.

4. Controls over FBWT reporting and reconciliations, including the Navy's related controls over its third-party service provider, need improvement.

The Navy's general fund FBWT accounts represent its undisbursed budget authority. FBWT accounts are increased by events such as appropriations received, transfers in, and offsetting collections, and are decreased by events such as rescissions of budget authority, transfers out, and outlays. Reconciling FBWT accounts routinely and timely with Treasury records helps an entity ensure that account balances are complete and accurate and that the Schedule is fairly presented. The Navy and its service provider are responsible for reconciling, analyzing, and monitoring the Navy's FBWT.

Although the Navy recognizes the need to design and implement a FBWT reconciliation and has made progress with its design, it has not developed and implemented a FBWT reconciliation that fully reconciles transactional activity recorded in its GLAS to amounts recorded in its financial reporting system and Treasury records. Moreover, the current reconciliation does not fully identify the underlying causes of reconciling items or ensure that appropriate relationships between budgetary and proprietary general ledger accounts exist. The design of the Navy's current procedures also does not require that reconciliations be prepared monthly and during reporting periods, in advance of producing the Schedule or other financial reports.

In addition, the Navy did not oversee its service provider to ensure the accuracy, completeness, and timeliness of the FBWT reporting and reconciliation processes. The Navy does not review the activity recorded in the trial balance used to generate the Schedule. Specifically, the Navy did not review monthly Treasury reporting, the monthly Statement of Differences reconciliations (FMS 6652), or other reconciliations and analyses designed to ensure the existence, completeness, and accuracy of FBWT amounts. We noted that differences between the Navy and Treasury's records, as well as differences between the cash management system and the GLAS, were not always researched and resolved timely, and were not always supported by detailed records. Additionally, the Navy did not perform Statement of Differences reconciliations or implement alternative procedures for several months during FY 2015 due to a Treasury system upgrade.

Without properly designed and effectively operating FBWT reporting and reconciliation processes, the Navy cannot ensure its budget authority, disbursements, and collections are properly recorded and that the Schedule is complete and accurate.

We recommend Navy management:

- Develop, document, and implement a monthly FBWT reconciliation that reconciles the GLAS to the trial balances used to generate the Schedule and Treasury records; identify the root causes for differences, including those due to timing or incomplete processing from the cash management system to the GLAS; ensure that appropriate relationships between budgetary and proprietary general ledger accounts exist; and ensure that corrective actions are taken as necessary and are completed timely.
- Update existing procedures to ensure that all FBWT reconciliations and analyses are completed in advance of producing the Schedule.
- Develop, document, and implement procedures to ensure proper oversight of FBWT reporting and reconciliation processes performed by Navy's service provider.

Finding 3: Ineffective Transactional Controls (Material Weakness)

The Navy had pervasive transactional control deficiencies related to amounts presented on its Schedule. These deficiencies related to transactions involving military and civilian payroll, contractor and vendor payments, military standard requisitioning and issue procedures, reimbursable work orders, and transportation of people and things. Of the 4,282 transactions we tested, 9 percent evidenced control deviations or substantive errors and 39 percent were missing key supporting documentation. We noted that the Navy:

- Did not always provide documentation to substantiate the existence of obligations or evidence that obligating officials were authorized to bind the U.S. Government. In certain cases, the Navy recorded obligations prior to the approval of the obligating document or at incorrect amounts.
- Lacked evidence of proper approval or evidence that the approver possessed proper authorization for collections and outlays related to civilian payroll, travel, and other non-payroll delivered orders.
- Did not properly record certain budgetary transactions, including those related to expenditure transfers, cost reclassifications, outlays, and advance payments. For example, the Navy inappropriately accounted for expenditure transfers from a trust fund to a Navy general fund as if they were reimbursable orders. In addition, the Navy incorrectly recorded cost reclassifications within a single appropriation as reimbursable activity.

Moreover, the Navy incorrectly recorded advance payments or recorded other transactions that did not involve advance payments as advances. In other instances, the Navy recorded outlays as advances even though receipt and acceptance activities had already occurred.

- Did not record certain transactions timely or in the proper period.
- Did not implement sufficient controls for transactions involving intragovernmental orders. For example, the Navy did not consistently review and approve billings prior to making outlays. In certain cases, it did not provide billing reports, or provided reports that did not agree to outlay amounts. Although certain commands performed periodic post-outlay reviews, such reviews were not performed consistently across the entire Navy or for all outlays. When reviews were performed, evidence was not always maintained.

In addition, the Navy did not evidence receipt and acceptance activities for intragovernmental orders or for certain other contract-related transactions.

- Did not always provide supporting documentation for sampled transactions, or provided documentation that was not clearly associated to the recorded transactions. In addition, documentation was not always sufficient to support the nature of the accounting event; substantiate recorded unfilled orders, collections, delivered orders, and outlays; and evidence whether transactions were recorded in the correct fund or period.
- Did not consistently perform monitoring procedures to assess whether recorded obligations, unpaid delivered orders, unfilled customer orders, and filled customer orders unpaid were valid and accurately recorded.

GAO's *Standards for Internal Control in the Federal Government* and OMB Circular A-123 *Management's Responsibility for Internal Control* state that the transactions should be properly authorized and documented, and that supporting documentation should be maintained and be readily available.

The Navy's transactional control deficiencies collectively impede its ability to substantiate amounts presented on its Schedule; help ensure that recorded transactions occurred, are complete, and pertain to the Navy; and ensure it conducted activities only within the scope of its statutory authority. Moreover, the deficiencies increased the risk of Antideficiency Act violations and resulted in the Navy improperly: 1) extending funds availability, 2) obligating funds for intragovernmental transactions in advance of available budgetary authority, and 3) incurring costs without assurance of sufficient spending authority from offsetting collections.

A variety of factors caused these conditions, including:

- Lack of adherence to internal control standards, applicable regulations, and DoD and Navy policies and procedures related to the documentation, and timely and accurate recording of transactions.
- Lack of documented policies and procedures governing certain transaction types.
- Inadequate review and approval of transactions.
- Insufficient oversight of general ledger systems to ensure transactions are properly recorded.
- Inability to properly retain, manage, and provide supporting documentation.

- Limited experience with and insufficient understanding of general ledger accounting, the nature of certain accounting events, or what documentation sufficiently substantiates its transactions.
- Breakdowns in the review of supporting documentation to validate the complete documentation was provided for audit.

We recommend Navy management:

- Develop detailed guidance and training on:
 - DoD and Navy policies and procedures, including approval, documentation, and timeliness requirements for obligating the U.S. Government;
 - Limitations on funds availability; and
 - Requirements and procedures for entering into reimbursable agreements.
- Develop and implement policies and procedures to help ensure that:
 - Intragovernmental obligations are executed only after requisite budget authority is available.
 - Obligations funded by spending authority from offsetting collections do not exceed the amount of the related reimbursable order.
- Evaluate improperly reviewed and approved budgetary transactions and take necessary corrective actions, including the preparation of any needed adjustments.
- Develop and implement policies and procedures concerning the approval, documentation, and timely and accurate recording of transactions in cases where such procedures do not already exist. Consider requirements to properly account for expenditure transfers, collections, outlays, cost reclassifications, and advance payments.
- Develop and implement policies and procedures for monitoring the validity and accuracy of recorded transactions.
- Collaborate with system owners to evaluate posting logic and other configurations, and make necessary updates to ensure transactions are properly recorded. Until system changes are implemented, develop and implement policies and procedures requiring validations, including timely corrective actions, to ensure transactions are properly recorded.
- Develop detailed guidance and training on creating, maintaining, and organizing key supporting documentation, including requirements to ensure documentation is complete and clearly associated with the identified transaction.
- Develop guidance for making supporting documentation readily available for management review and audit purposes.

APPENDIX B
NONCOMPLIANCE WITH FEDERAL FINANCIAL MANAGEMENT IMPROVEMENT ACT OF 1996 (FFMIA) NOTED DURING
THE ENGAGEMENT

APPENDIX B:
NONCOMPLIANCE WITH FEDERAL FINANCIAL MANAGEMENT IMPROVEMENT ACT OF 1996 (FFMIA) NOTED DURING THE ENGAGEMENT

As identified in its FY 2015 Statement of Assurance, the Navy is not in compliance with section 803(a) of FFMIA, which imposes requirements concerning (1) federal financial management systems, (2) federal accounting standards, and (3) conformance with the USSGL at the transaction level. We noted the following instances of FFMIA noncompliance:

1. **Federal financial management system requirements.** Consistent with the material weakness *Ineffective Controls over Information Technology* described in Appendix A, the Navy has not identified and put in place effective IT controls over its significant number of general ledger and financial feeder systems. Specifically, the Navy's deficiencies related to security management, account management, logging and monitoring, segregation of duties, configuration management, interfaces, and controls over third-party systems place financial systems data at significant risk of being incomplete or inaccurate.
2. **Federal accounting standards.** As discussed in the material weaknesses *Ineffective Controls over Financial Reporting* and *Ineffective Transactional Controls* described in Appendix A, the Navy's internal controls were not properly designed and implemented, impeding its ability to prepare the Schedule and support reported amounts in accordance with federal accounting standards. Specifically, the Navy is not appropriately accounting for activity related to expenditure transfers, cost reclassifications, outlays, and advance payments in accordance with federal accounting standards. Accordingly, the Navy did not substantially comply with those standards.
3. **Noncompliance with USSGL posting logic at the transaction level.** Consistent with the Navy's assessment, we confirmed that activity recorded in its GLAS does not produce expected budgetary and proprietary general ledger account relationships, thus inhibiting compliance with the USSGL at the transaction level; see the material weaknesses *Ineffective Controls over Financial Reporting* and *Ineffective Transactional Controls* in Appendix A. Instances of USSGL nonconformance occurred when the Navy:
 - Accounted for expenditure transfers from a trust fund to a Navy general fund as if they were reimbursable orders.
 - Recorded cost reclassifications within a single appropriation as reimbursable activity.
 - Recorded advance payments and collections incorrectly.
 - Does not record appropriations and Treasury warrants in the GLAS when received.

These instances of FFMIA noncompliance are due to an array of issues. The Navy operates in a highly decentralized and complex environment and has not implemented top-down controls over its financial management processes. It has a large number of financial systems, including some that have been historically mission-focused, that were implemented prior to the establishment of FFMIA requirements. The ability to reconfigure these systems is also impeded by the large volume of system interfaces and different system owners. Limited financial and human capital resources also affect the Navy's ability to achieve the correct posting logic in its systems. Moreover, because the Navy's GLAS do not meet the requirements of federal financial management systems and do not process all activity at the USSGL level, the Navy uses highly complex, multi-step financial reporting processes to produce financial reports. These complex processes and the thousands of JVs recorded each month exacerbate the conditions that give rise to the Navy's FFMIA noncompliance, which collectively encumber its ability to assert completeness, accuracy, existence, and proper presentation of transactions in the Schedule.

In addition to the recommendations in Appendix A, we recommend Navy management:

- Continue to inventory instances of posting logic noncompliance and make necessary reconfigurations in the financial management systems to help ensure all transactions are initiated in accordance with the USSGL.
- Develop and implement procedures and provide targeted training to completely and accurately record all transactions in accord with accounting standards and the USSGL.

APPENDIX C
THE NAVY'S RESPONSE TO THE FINDINGS



**DEPARTMENT OF THE NAVY
OFFICE OF THE ASSISTANT SECRETARY
(FINANCIAL MANAGEMENT AND COMPTROLLER)
1000 NAVY PENTAGON
WASHINGTON, DC 20350-1000**

MEMORANDUM FOR COTTON & COMPANY, LLP

SUBJECT: Navy's Response to Fiscal Year 2015 Schedule of Budgetary Activity Audit Findings

In completing our first independent audit of the Fiscal Year 2015 Schedule of Budgetary Activity, the Navy has achieved a significant milestone in our financial improvement. We concur with the Independent Auditor's Report, the Notices of Findings and Recommendations received, and the three identified material weaknesses: ineffective controls over information technology; ineffective controls over financial reporting; and ineffective transactional controls.

We are committed to building a strong corporate governance and internal control framework. We fully recognize that there is much to be done and that the items identified will require department-wide dedication, action, and improvement. We look forward to addressing these issues in the coming years.

A handwritten signature in cursive script that reads "Karen L. Fenstermacher".

**KAREN L. FENSTERMACHER
Deputy Assistant Secretary of the Navy
(Financial Operations)**



4.0 FINANCIAL SECTION

4.1 SCHEDULE OF BUDGETARY ACTIVITY

Department of Defense
DEPARTMENT OF THE NAVY
 US Navy

SCHEDULE OF BUDGETARY ACTIVITY

For the Year Ended September 30, 2015

2015

(\$ in Thousands)

Budgetary Resources:

Other changes in unobligated balance	\$	432,784
Unobligated balance from prior year budget authority, net		432,784
Appropriations (discretionary and mandatory)		136,316,145
Spending Authority from offsetting collections (discretionary and mandatory)		6,804,322

Total Budgetary Resources

\$ 143,553,251

Status of Budgetary Resources:

Obligations Incurred	\$	127,014,640
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Unobligated Balance, End of Year:

Apportioned		16,538,611
Total unobligated balance, end of year		16,538,611

Total Budgetary Resources

\$ 143,553,251

Change in Unobligated Balance:

Unpaid Obligations:

Obligations incurred	\$	127,014,640
Outlays (gross)		(81,809,475)
Unpaid obligations, end of year		45,205,165

Uncollected Payments:

Change in uncollected payments, Fed sources		(2,123,559)
Uncollected payments, Fed sources, end of year		(2,123,559)

Obligated balance, end of year

\$ 43,081,606

Budget Authority and Outlays, Net:

Budget authority, gross (discretionary and mandatory)	\$	143,120,467
Actual offsetting collections (discretionary and mandatory)		(4,680,763)
Change in uncollected customer payments from Federal		(2,123,559)

Budget Authority, net (discretionary and mandatory)

\$ 136,316,145

Outlays, gross (discretionary and mandatory)	\$	81,809,475
Actual offsetting collections (discretionary and mandatory)		(4,680,763)
Outlays, net (discretionary and mandatory)		77,128,712

Agency Outlays, net (discretionary and mandatory)

\$ 77,128,712

4.2 NOTES TO THE SCHEDULE

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

1.A. Reporting Entity and Major Components

The United States Navy (“The Navy”) was founded on October 13, 1775 and, along with the Marine Corps, is a component of the Department of the Navy. The mission of the Navy is to maintain, train, and equip combat-ready Naval forces capable of winning wars, deterring aggression, and maintaining freedom of the seas. It is overseen by the Chief of Naval Operations (CNO), and consists of the Operating Forces and Shore Establishment. The CNO is the senior military officer in the Navy, a member of the Joint Chiefs of Staff, and is the principal naval advisor to the President and Secretary on the conduct of naval activities of the DON. The CNO’s office is responsible for the command, utilization of resources and operating efficiency of the operating forces of the Navy and of the Navy shore activities assigned by the Secretary. The Navy carries out these duties through multiple organizations (often referred to as commands or BSOs) as described in the MD&A section of this financial report.

1.B. Accounting Principles

The Schedule of Budgetary Activity (SBA) has been prepared to report the budgetary activity and results of operations of the Navy, as required by the SBA guidance issued by OUSD. The SBA is a DoD report developed to demonstrate incremental progress toward full financial statement auditability. The Navy’s full financial statement report was prepared as required by the Chief Financial Officers Act of 1990, expanded by the Government Management Reform Act of 1994, and other appropriate legislation. The SBA, has been prepared from the books and records of the Navy, to the extent possible, by following USGAAP promulgated by the Federal Accounting Standards Advisory Board; the Office of Management and Budget (OMB) Circular No. A-136, “Financial Reporting Requirements”; and the DoD, Financial Management Regulation (FMR). The accompanying SBA accounts for all budgetary resources, based on OUSD guidance that defines the reporting requirements, for which the Navy is responsible unless otherwise noted.

The SBA is a financial related schedule that presents the current-year activity for the current-year appropriations. The SBA presents a subset of activity and elements of the Statement of Budgetary Resources (SBR). The SBA reports current-year budget activity that is also presented on the entity’s SF-133 reports, starting with new appropriations received. The purpose of producing and auditing the SBA is to support the Navy’s continuing assessment of the effectiveness of implementing financial improvements and accurate reporting of the current-year budgetary activity. Information relative to classified assets, programs, and operations are excluded from the SBA or otherwise aggregated and reported in such a manner that it is not discernable.

1.C. Appropriations and Funds

The Navy receives appropriations and funds as general funds. The Navy uses these appropriations and funds to execute its mission and subsequently report on resource usage.

General funds are used for financial transactions funded by congressional appropriations, including military personnel, operation and maintenance, research and development, procurement, and military construction.

Treasury Fund Symbol	Appropriation Name
17 2015/2021 0513	Ship Modernization, Operations and Sustainment Fund, Navy
17 2015/2019 0730	Family Housing Construction, Navy and Marine Corps
17 2015/2015 0735	Family Housing Operation and Maintenance, Navy and Marine Corps
17 2015/2015 1000	Medicare – Eligible Retiree Health Fund Contribution, Navy
17 2015/2015 1001	Medicare – Eligible Retiree Health Fund Contribution, Marine Corps
17 2015/2015 1002	Medicare – Eligible Retiree Health Fund Contribution, Reserve Personnel, Navy
17 2015/2015 1003	Medicare – Eligible Retiree Health Fund Contribution, Reserve Personnel, Marine Corps
17 2015/2018 1205	Military Construction, Navy and Marine Corps
17 2015/2019 1205	Military Construction, Navy and Marine Corps
17 2015/2018 1235	Military Construction, Naval Reserve
17 2015/2019 1235	Military Construction, Naval Reserve
17 2015/2016 1319	Research, Development, Test, and Evaluation, Navy
17 2015/2015 1405	Reserve Personnel, Navy
17 2015/2015 1453	Military Personnel, Navy
17 2015/2017 1506	Aircraft Procurement, Navy
17 2015/2017 1507	Weapons Procurement, Navy
17 2015/2017 1508	Procurement of Ammunition, Navy and Marine Corps
17 2015/2015 1611	Shipbuilding and Conversion, Navy
17 2015/2019 1611	Shipbuilding and Conversion, Navy
17 2015/2015 1804	Operations and Maintenance, Navy
17 2015/2015 1806	Operations and Maintenance, Navy Reserve
17 2015/2017 1810	Other Procurement, Navy

1.D. Basis of Accounting

The Navy is unable to meet all full accrual accounting requirements. This is primarily because many of the Navy's financial and nonfinancial systems and processes were designed prior to the legislative mandate to produce financial statements in accordance with USGAAP. These systems were not designed to collect and record financial information on the full accrual accounting basis but were designed to record information on a budgetary basis.

The Navy SBA and supporting trial balances are compiled from the underlying financial data and trial balances of the Navy's sub-entities. The underlying data is largely derived from budgetary transactions (obligations, disbursements, and collections) and accruals made for major items such as payroll expenses and accounts payable. Some of the sub-entity level trial balances may reflect known abnormal balances resulting largely from business and system processes. At the consolidated Navy level these abnormal balances may not be evident. If disclosures of abnormal balances are made in the applicable footnotes, they are made to the extent that the abnormal balances are evident at the consolidated level.

The DoD is determining the actions required to bring its financial systems and processes into compliance with USGAAP and includes the pursuit of revising accounting systems to record transactions based on the U.S. Standard General Ledger (USSGL). Until the Navy's financial processes and systems are updated to collect, record, and report financial information as required by USGAAP, there will be instances when the Navy's financial data will be derived from budgetary transactions, data from nonfinancial feeder systems, and accruals.

1.E. Allocation Transfers

The Navy is a party to allocation transfers with other federal agencies as a transferring (parent) entity or receiving (child) entity. An allocation transfer is an entity's legal delegation of authority to obligate budget authority and outlay funds on its behalf. Generally, all financial activity related to allocation transfers (e.g. budget authority, obligations, outlays) is reported in the financial statements of the parent entity. Exceptions to this general rule apply to specific funds for which OMB has directed that all activity be reported in the financial statements of the child entity. These exceptions include U.S. Treasury – Managed Trust Funds, Executive Office of the President (EOP), and all other funds specifically designated by OMB.

The Navy receives allocation transfers from the EOP for the Foreign Military Financing Program and the International Military Education and Training Program, but does not report these funds. The reporting of these funds is consolidated by the DoD Security Assistance Accounting group at the Defense Finance and Accounting Service and the funds are reported in the DoD AFR at Appendix B in accordance with DoD's agreement with the EOP.

The Navy also receives allocation transfers from the U.S. Forest Service and the Federal Highway Administration. The activities for these funds are reported separately from the DoD financial statements and reported to the parent.

NOTE 2. APPORTIONMENT CATEGORIES OF OBLIGATIONS INCURRED: DIRECT VS. REIMBURSABLE OBLIGATIONS

As of September 30 (Amounts in thousands)	2015		
	Direct Obligations	Reimbursable Obligations	Total
Obligations Apportioned Under			
Category A	\$ 76,035,545	\$ -	\$ 76,035,545
Category B	45,650,569	5,328,526	50,979,095
Exempt	-	-	-
Total	\$ 121,686,114	\$ 5,328,526	\$ 127,014,640

The direct and reimbursable obligations under Categories A, B, and Exempt (from apportionment) are reported in the table above. Apportionment categories are determined in accordance with the guidelines provided in Part 4 “Instructions on Budget Execution” of OMB Circular A-11 Preparation, Submission, and Execution of the Budget. Category A represents resources apportioned for calendar quarters and Category B represents resources apportioned for other time periods or for activities, projects, objectives, or for a combination thereof.

NOTE 3. UNDELIVERED ORDERS AT THE END OF THE PERIOD

As of September 30 (Amounts in thousands)	2015
Net Amount of Budgetary Resources Obligated for Undelivered Orders at the End of the Period	<u>\$ 44,905,913</u>

Undelivered Orders at the end of the period represent the amount of goods and/or services ordered, which have not been actually or constructively received. This amount includes any orders which may have been prepaid or advanced, but for which delivery or performance has not yet occurred.





5.0 REQUIRED SUPPLEMENTARY INFORMATION

Department of Defense
DEPARTMENT OF THE NAVY
 US Navy

DISAGGREGATED SCHEDULE OF BUDGETARY ACTIVITY

For the Year Ended September 30, 2015

(\$ in Thousands)

	MILCON	MILPERS	O&M
Budgetary Resources:			
Other changes in unobligated balance	\$ 3,827	\$ -	\$ 107,557
Unobligated balance from prior year budget authority, net	3,827	-	107,557
Appropriations (discretionary and mandatory)	1,152,075	31,960,311	46,779,065
Spending Authority from offsetting collections (discretionary and mandatory)	712,411	404,167	5,330,072
Total Budgetary Resources	\$ 1,868,313	\$ 32,364,478	\$ 52,216,694
Status of Budgetary Resources:			
Obligations Incurred	\$ 1,074,542	\$ 32,271,510	\$ 50,509,694
Unobligated Balance, End of Year:			
Apportioned	793,771	92,968	1,707,000
Total unobligated balance, end of year	793,771	92,968	1,707,000
Total Budgetary Resources	\$ 1,868,313	\$ 32,364,478	\$ 52,216,694
Change in Unobligated Balance:			
Unpaid Obligations:			
Obligations incurred	\$ 1,074,542	\$ 32,271,510	\$ 50,509,694
Outlays (gross)	(290,939)	(30,805,572)	(36,584,606)
Unpaid obligations, end of year	783,603	1,465,938	13,925,088
Uncollected Payments:			
Change in uncollected payments, Fed sources	(294,904)	(11,799)	(1,726,500)
Uncollected payments, Fed sources, end of year	(294,904)	(11,799)	(1,726,500)
Obligated balance, end of year	\$ 488,699	\$ 1,454,139	\$ 12,198,588
Budget Authority and Outlays, Net:			
Budget authority, gross (discretionary and mandatory)	\$ 1,864,486	\$ 32,364,478	\$ 52,109,137
Actual offsetting collections (discretionary and mandatory)	(417,507)	(392,368)	(3,603,572)
Change in uncollected customer payments from Federal	(294,904)	(11,799)	(1,726,500)
Budget Authority, net (discretionary and mandatory)	\$ 1,152,075	\$ 31,960,311	\$ 46,779,065
Outlays, gross (discretionary and mandatory)	\$ 290,939	\$ 30,805,572	\$ 36,584,606
Actual offsetting collections (discretionary and mandatory)	(417,507)	(392,368)	(3,603,572)
Outlays, net (discretionary and mandatory)	(126,568)	30,413,204	32,981,034
Agency Outlays, net (discretionary and mandatory)	\$ (126,568)	\$ 30,413,204	\$ 32,981,034

Department of Defense
DEPARTMENT OF THE NAVY
US Navy

DISAGGREGATED SCHEDULE OF BUDGETARY ACTIVITY

For the Year Ended September 30, 2015
(\$ in Thousands)

	Procurement	RDT&E	Total
Budgetary Resources:			
Other changes in unobligated balance	\$ 271,400	\$ 50,000	\$ 432,784
Unobligated balance from prior year budget authority, net	271,400	50,000	432,784
Appropriations (discretionary and mandatory)	40,992,266	15,432,428	136,316,145
Spending Authority from offsetting collections (discretionary and mandatory)	182,783	174,889	6,804,322
Total Budgetary Resources	\$ 41,446,449	\$ 15,657,317	\$ 143,553,251
Status of Budgetary Resources:			
Obligations Incurred	\$ 29,282,619	\$ 13,876,275	\$ 127,014,640
Unobligated Balance, End of Year:			
Apportioned	12,163,830	1,781,042	16,538,611
Total unobligated balance, end of year	12,163,830	1,781,042	16,538,611
Total Budgetary Resources	\$ 41,446,449	\$ 15,657,317	\$ 143,553,251
Change in Unobligated Balance:			
Unpaid Obligations:			
Obligations incurred	\$ 29,282,619	\$ 13,876,275	\$ 127,014,640
Outlays (gross)	(6,169,675)	(7,958,683)	(81,809,475)
Unpaid obligations, end of year	23,112,944	5,917,592	45,205,165
Uncollected Payments:			
Change in uncollected payments, Fed sources	2,506	(92,862)	(2,123,559)
Uncollected payments, Fed sources, end of year	2,506	(92,862)	(2,123,559)
Obligated balance, end of year	\$ 23,115,450	\$ 5,824,730	\$ 43,081,606
Budget Authority and Outlays, Net:			
Budget authority, gross (discretionary and mandatory)	\$ 41,175,049	\$ 15,607,317	\$ 143,120,467
Actual offsetting collections (discretionary and mandatory)	(185,289)	(82,027)	(4,680,763)
Change in uncollected customer payments from Federal	2,506	(92,862)	(2,123,559)
Budget Authority, net (discretionary and mandatory)	\$ 40,992,266	\$ 15,432,428	\$ 136,316,145
Outlays, gross (discretionary and mandatory)	\$ 6,169,675	\$ 7,958,683	\$ 81,809,475
Actual offsetting collections (discretionary and mandatory)	(185,289)	(82,027)	(4,680,763)
Outlays, net (discretionary and mandatory)	5,984,386	7,876,656	77,128,712
Agency Outlays, net (discretionary and mandatory)	\$ 5,984,386	\$ 7,876,656	\$ 77,128,712

6.0 APPENDIX

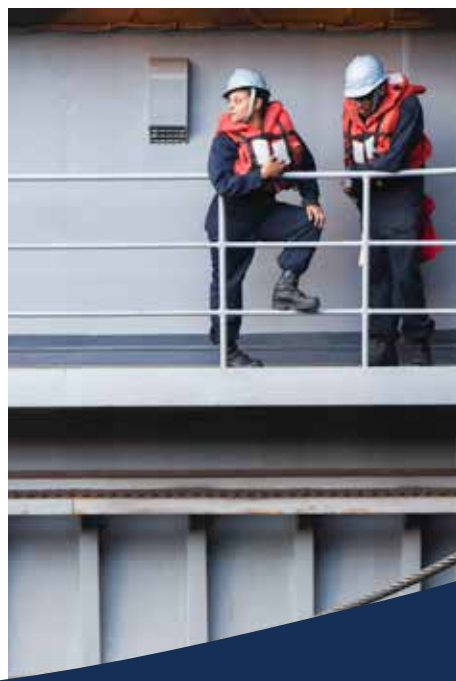
ACRONYMS

AFS	Audited Financial Statements	ICONO	Internal Controls Over Non-Financial Operations
ATFP	Anti-Terrorism/Force Protection	IMCMEX	International Mine Countermeasures Exercise
BSO	Budget Submitting Office	MAU	Major Assessable Unit
BUMED	Bureau of Medicine and Surgery	MICP	Managers' Internal Control Program
BUPERS	Bureau of Naval Personnel	MILCON	Military Construction
CARAT	Cooperation Afloat Readiness and Training	MILPERS	Military Personnel
CNIC	Commander, Navy Installations Command	MSC	Military Sealift Command
CNO	Chief of Naval Operations	MUOS	Mobile User Objective System
CNRF	Commander, Navy Reserve Force	NAVAIR	Naval Air Systems Command
COMPACFLT	Commander U.S. Pacific Fleet	NAVAUDSVC	Naval Audit Service
COMSEC	Communications Security	NAVFAC	Naval Facilities Engineering Command
COMUSFLTFORCOM	U.S. Fleet Forces Command	NAVSEA	Naval Sea Systems Command
DASN (FO)	Deputy Assistant Secretary of the Navy (Financial Operations)	NAVSUP	Naval Supply Systems Command
DCMA	Defense Contract Management Agency	NETC	Naval Education Training Command
DDRS	Defense Department Reporting System	NPC	Navy Personnel Command
DFAS	Defense Finance and Accounting Service	NPS	Naval Postgraduate School
DLA	Defense Logistics Agency	NRC	Navy Recruiting Command
DNS	Director, Navy Staff	NSW	Naval Special Warfare
DoD	Department of Defense	NSWC	Naval Surface Warfare Center
DoDIG	Department of Defense Inspector General	NWC	Naval War College
DON	Department of the Navy	O&M	Operations and Maintenance
DON/AA	Department of the Navy Assistant for Administration	OASN	Office of the Assistant Secretary of the Navy
EOP	Executive Office of the President	OCONUS	Outside Contiguous United States
EPR	Evaluation, Prioritization, and Remediation	OMB	Office of Management and Budget
ERP	Enterprise Resource Planning	ONI	Office of Naval Intelligence
EVM	Earned Value Management	ONR	Office of Naval Research
FFMIA	Federal Financial Management Improvement Act	OSD	Office of Secretary of Defense
FIAR	Financial Improvement and Audit Readiness	OUSD	Office Under Secretary of Defense
FISCAM	Federal Information System Controls Audit Manual	PACOM	Principal Administering Command
FM&C	Financial Management and Controller	PAO	Principal Administering Office
FMFIA	Federal Managers' Financial Integrity Act	PII	Personally Identifiable Information
FMO	Financial Management Office	RDT&E	Research, Development, Technology, and Evaluation
FMR	Financial Management Regulation	RSN	Republic of Singapore Navy
FSA	Field Support Activity	S&T	Science and Technology
FTE	Full Time Equivalent	SBA	Schedule of Budgetary Activity
FY	Fiscal Year	SBR	Schedule of Budgetary Resources
GAO	Government Accountability Office	SEAL	Special Warfare Operators
GLs	General Ledger systems	SECNAV	Secretary of the Navy
IA	Individual Augmentees	SGGN	Guided Missile Submarine
ICOFR	Internal Controls Over Financial Reporting	SOA	Statement of Assurance
ICOFS	Internal Controls Over Financial Systems	SPAWAR	Space and Naval Warfare Systems Command
		SSP	Strategic Systems Program
		TU	Transaction Universe
		U.S.	United States of America
		USGAAP	U.S. generally accepted accounting principles
		USNA	U.S. Naval Academy
		USSGL	U.S. Standard General Ledger

COVER PHOTO CREDITS

1. Sailors observe as an aircraft carrier sails alongside another aircraft carrier. (U.S. Navy photo by Mass Communication Specialist 2nd Class Jacob Estes/Released)
2. Waiting to board a helicopter on an amphibious assault ship. (U.S. Navy photo by Mass Communication Specialist Seaman Derry Todd/Released)
3. Saluting the national ensign during morning colors. (U.S. Navy photo by Mass Communication Specialist 3rd Class Jonathan B. Trejo/Released)
4. Sailors coordinate to transport a Marine assault amphibious vehicle aboard a dock landing. (U.S. Navy photo by Mass Communication Specialist Seaman Chelsea Troy Milburn/Released)
5. Positioning a rack of high-explosive guided bomb units for mounting onto AV-8B Harriers. (U.S. Navy photo by Mass Communication Specialist 2nd Class Christopher B. Janik/Released)
6. U.S. Marines assigned drive high mobility multipurpose wheeled vehicles to the beach from a Causeway ferry. (U.S. Navy photo by LT Russell Wolfkiel/Released)
7. Using an alidade and sound-powered telephone as an aircraft carrier departs for its 2015 patrol. (U.S. Navy photo by Mass Communication Specialist 2nd Class Paolo Bayas/Released)
8. Monitoring inbound supplies from a Military Sealift Command fleet replenishment oiler. (U.S. Navy photo by Mass Communication Specialist 3rd Class Robert S. Price/Released)
9. An F/A-18E Super Hornet launches from an aircraft carrier. (U.S. Navy photo by Mass Communication Specialist 2nd Class John Philip Wagner, Jr./Released) 150530-N-TP834-647
10. A moored attack submarine. (U.S. Navy photo/Released)
11. An amphibious transport dock ship, a dry cargo and ammunition ship, and an amphibious dock landing ship prepare to conduct a vertical replenishment-at-sea. (U.S. Navy photo by Mass Communication Specialist 3rd Class Jonathan B. Trejo/Released)
12. Marines depart the well deck of an amphibious transport dock ship. (U.S. Navy photo by Mass Communication Specialist 3rd Class Derek A. Harkins/Released)
13. A Quartermaster Seaman makes deck log entries during a strait transit exercise. (U.S. Navy photo by Mass Communication Specialist 3rd Class Liam Kennedy/Released)
14. A Steelworker cuts rebar beams with an oxygen acetylene torch during a seaplane ramp construction project. (U.S. Navy photo by Mass Communication Specialist 2nd Class Mark El-Rayes/Released)
15. Sailors and Marines aboard an amphibious dock landing ship man the rails. (U.S. Navy photo by Mass Communication Specialist 3rd Class Adam Austin/Released)





FOR MORE INFORMATION

Assistant Secretary of the Navy Financial Management and Comptroller
<http://www.finance.hq.navy.mil/FMC>

www.navy.mil